Developing Governance Structures in Family Firms

From adoption to institutionalization

MARIA JOSÉ PARADA BALDERRAMA
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A Juan, Bruno y Laura.

To Juan, Bruno y Laura.

"It is good to have an end to journey toward; but it is the journey that matters, in the end."

Ernest Hemingway
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Barcelona, 15 March 2015.

Maria José Parada Balderrama
Abstract

This dissertation deals with family business governance. More specifically it focuses on why and how family businesses develop their governance structures. This is an important topic because governance plays an essential role in the business world, as it links ownership and management and defines its relationships. In the case of family businesses it is especially important because the boundaries of ownership and management are blurred by the overlapping of the two systems of family and business. This overlap makes the creation of governance structures challenging and elusive. Approaching the creation of governance structures as a process of development and understanding the reasons behind the pattern of adoption becomes a key element for family businesses.

Drawing on institutional theory, I suggest that legitimacy and efficiency seeking, two seemingly opposing reasons, motivate the development of governance structures over time. I also rely on institutional work and bring back individuals to institutional theory by showing how family members act as institutional champions and lead governance changes within their organizations while interacting with other interested actors involved.

Combining quantitative and qualitative methodologies, I study the development of governance structures in a processual way. On the one hand, using Mokken scale analysis, I test a sample of 1,596 cases for whether family businesses follow a specific sequence in the development of governance structures. Subsequently, I use Poisson regression analysis to test eleven hypotheses related to efficiency and legitimacy seeking and the degree of development of such structure. On the other hand, qualitative case-based research is used to shed light on how governance structures change over time. The purposeful efforts of individuals are observed in the qualitative cases.

Empirical findings suggest that, in the broad picture, family businesses follow a specific sequence that goes from business governance to family governance. When observing in detail with a process perspective individual cases show that family businesses follow different patterns of development due to four different motives. Legitimacy seeking has a strong influence in the decision to adopt governance structures, but if not aligned with efficiency seeking, this adoption may be ceremonial, meaning that despite not being really implemented and internalized they still allow these structures to exist. Efficiency seeking triggers substantive adoption and full institutionalization of such structures. In my research two other major reasons for the development of governance structures emerge: power and learning. Both can act in a positive way (power seeking or accumulated know-how) or in a negative way (resistance to give up power or lack of know-how). This appears as institutional work which takes place where different actors get involved with possible institutional champions guiding the process.
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PART I: INTRODUCTION
1. Introduction

This dissertation examines why and how family businesses develop their governance structures. To do so, I focus on which motives lead family businesses to develop specific governance structures, and then draw attention to the process that unfolds over time. The decision to choose this topic is grounded in various reasons. There is a long-standing question in organizational theory about how and why organizations adopt structures. Literature suggests that the motivations and meanings underlying the adoption of structures have been absent so far.

This is a relevant question in the corporate governance world, especially after all the debacles of large companies related to financial scandals. These incidents have raised the need to strengthen governance mechanisms, mainly created for large dispersed-owned quoted companies. This has resulted in widely prescribed codes of “good” governance for and being implemented by, all types of companies, including family businesses. The latter raises some questions regarding the adoption of recommended governance structures in specific contexts, which have been partially answered with a rather narrow focus. On the one hand, it has remained mainly on large corporations. On the other hand, the main theoretical frameworks used may partially address why, but scarcely reflect on how, governance structures are developed. In addition, most studies on governance related to the adoption of governance structures have addressed the issue from a static perspective.

More recently, family businesses have raised an increasing interest in all fronts, academic, policy and practitioner-wise because of the relevant role they play in the economy. In relation to governance in family businesses, it has been highlighted that governance structures in family businesses differ from their non-family counterparts, because of the overlapping systems, the family and the business, which purport different logics. Previous works have drawn attention to the factors that make governance more effective for performance (e.g. composition or size of the board). Other studies have shed light on the responses of family businesses to institutional pressures in terms of their governance structures. What is still missing is the link between those institutional pressures and those contingent factors that condition family businesses to develop governance structures.

The following quotation extracted from Financial Times, highlights some of the issues aforementioned:

"Asking two extended Lebanese families to learn a Scottish country dance in the Egyptian desert might seem bizarre, but the two clans behind Wadi Group wanted a fun way to strengthen the ties between them… It was a highlight of a three-day "family
assembly’ of Wadi Group, an Egypt-based agribusiness conglomerate… with an annual turnover of $350m. Its roots go back to 1960s… The council and the assembly are among a number of corporate governance measures adopted by Wadi Group under the guidance of the International Finance Corporation, the private sector arm of the World Bank… The idea is to make the company sustainable as it expands… ‘Something needed to be done about organizing the family, working on the succession and drafting an employment policy to decide who has the right to join the business,’ Mr. Nasrallah says…” (Financial Times, October 21, 2014)

This and other articles in Financial Times highlight the increasing importance given to family businesses in the corporate and finance world. It reflects as well the adoption of governance structures prescribed by relevant institutions, such as the World Bank. Similarly, it echoes the need to implement such structures to deal with the family and business complexity. It implicitly suggests the idea that governance structures are developed over time, yet few studies have addressed the topic from a process perspective. These gaps in the literature are the starting point of this dissertation.

1.1. Family Business and Governance

It is widely acknowledged that governance in family businesses differs from mainstream governance in many aspects. The often lack of separation of ownership and management (Daily & Dollinguer, 1993) the degree of family involvement implying differences in interests and goals compared to non-family firms (Bettinelli, 2011; Davis, 2008); and family members often occupying multiple roles in the business (Davis and Tagiuri, 1989; Mustakallio, Autio and Zahra, 2002) are some of the issues that make family business governance dissimilar. In addition, as each family is unique, this creates heterogeneity among them (Chua, Chrisman, Steier, and Rau, 2012; Wright, Chrisman, Chua, and Steier, 2014). Despite these observable differences, there has been a tendency to suggest a “one size fits all” for the family business governance (Corbetta and Salvato, 2004), and a propensity to prescribe and implement general governance structures in family businesses as part of the institutionalization of the field (Melin and Nordqvist, 2007). This means, according to Nordqvist, Sharma and Chirico (2014) that the assumption of uniformity and enduring fit of governance mechanisms prevail in studies in this topic. In that sense, the study of governance

1 http://www.ft.com/cms/s/0/c41b0648-3a61-11e4-bd08-00144feabdc0.html#axzz3PunZ9SRj
in family firms adds new issues to take into account and makes of it an interesting context to be studied.

The importance adhered to the existence of governance structures for family businesses is highlighted in previous studies mainly attaching a key role for competitive advantage and differentiation (e.g. Miller and Le Breton-Miller, 2005; Carney, 2005; Gedajlovic and Carney, 2010), because it can create value, but also destroy it (Goel, Jussila, and Ikäheimonen, 2014). This leads to a key question, if governance structures are so important why don’t we understand why they are developed in the first place? The recent theoretical work of Nordqvist et al., (2014) raises this issue, pinpointing the need to empirically understand the forces that drive adoption of specific governance structures.

Academics argue that family businesses need to establish efficient governance structures that deal with two overlapping systems, the family and the business (Lansberg, 1983; Neubauer and Lank, 1998). Business issues are related to organization of administration (supervision, control, monitoring, etc.), and are addressed with business governance mechanisms such as the top-management team (TMT), and board of directors (cf. Neubauer and Lank, 1998). Family issues require family governance mechanisms – for building cohesion, sharing vision, and reducing conflicts (Mustakallio et al., 2002), and relies on family councils (Gallo and Kenyon-Rouvinez, 2005) and on constitutions or protocols, among other mechanisms. Recent reviews on the state of the art on family business governance research highlight the effort made in understanding such governance structures, ranging from family councils to board of directors, and top management team (cf. Gersick and Feliu, 2014 and Goel et al., 2014). Yet, most studies have mainly concentrated on one type of governance mechanism, basically, the Board of Directors (e.g. Zahra and Pearce, 1989; Corbetta and Salvato, 2004), leaving aside others. Recent studies have directed their attention to the top management team (e.g. Ensley and Pearson, 2005; Minichilli, Corbetta, and MacMillan, 2010; Nordqvist, 2005). The relationship of those governance mechanisms has not been much addressed (Monks and Minow, 2004) (see Brunninge, Nordqvist, and Wiklund 2007 for an exception). What emerges from this is that the definition of what an effective governance structure is may be different for each family business. Nordqvist et al., (2014) suggest in their theoretical paper that as family businesses are heterogeneous, they need to adapt their governance structures over time to their different characteristics.

While previous studies have shed light on important aspects on the role and characteristics of the different governance mechanisms in the family business, it remains unclear why family businesses develop specific governance mechanisms and how the process unfolds over time (Nordqvist et al., 2014). One possible explanation is related to the broader context of corporate governance. During the last decade, corporate governance has increased its relevance research-wise and policy-wise (Demirag, Sudarsanam, and Wright, 2000; Keasey, Thompson, and Wright, 2005), mainly due to the fiascos of large companies related to financial scandals. The lack of means and tools to protect and look after
shareholders’ interests and the increasing need for accountability to the various stakeholders in a firm (Johnson and Greening, 1999; Shleifer and Vishny, 1997) has been at the center of the discussion, and has exacerbated the need for governance practices and structures to deal with the issues aforementioned. This has led to a wide prescription all around the world (Filatotchev and Boyd, 2009) of codes of ‘good’ governance, practices and structures mainly designed for large dispersed-owned quoted companies, to all types of companies, including those with concentrated ownership like family businesses.

Given the embeddedness within larger social, legal and institutional frameworks (Fiss, 2008), it is of no surprise that governance structures have become widely prescribed and institutionalized among many organizational fields, as is the case in the family business field (e.g. Melin and Nordqvist, 2007, Nordqvist and Melin, 2002; Parada, et al, 2010). For instance, Deeg and Perez (2000) highlight that the increasing convergence of norms, laws, regulations and frameworks within the European Union contributes to the convergence of corporate governance practices. Judge, Douglas and Kutan, (2008) show a more macro perspective and find that the three pillars of institutionalization as country-level predictors influence perceptions of corporate governance at the national level. These studies shed some light on the adoption of governance structures in family firms driven by institutional pressures, assuming though, that family businesses act in a passive way conforming to institutional pressures (DiMaggio and Powell, 1983). A recent study made on family business groups, in Turkey that focuses on the impact of institutional pressures on the board of directors, shows that family businesses “resist to institutional pressures through ‘avoidance’, ‘defiance’ and ‘manipulation’ strategies (Selekler-Goksen and Öktem, 2009, p. 193). This study shows a rather different picture implicitly showing that family businesses act rather actively and reflect upon their decisions. Hence, the contradicting findings cast doubts pointing toward the need to better understand whether family businesses act passively or actively and to what extent they adopt such structures.

The fact that these governance structures are prescribed to achieve efficiency in dealing with family and business issues, the question that remains understudied is which contingent factors lead to the adoption of such structures. Some researchers have elucidated on some of the possible factors. For instance Calabrò and Mussolino (2013) center their attention on boards and strategic choices (internationalization). De Massis, Kotlar, Campopiano, and Cassia (2014) focus on ownership concentration. All studies contemplate age and size as variables that always affect the development of governance structures. Yet these studies focus on one governance mechanism. Nordqvist et al (2014), however, focus on family involvement in management and ownership and theorize about the different configurations family businesses have over the life stage of the family business contemplating different governance mechanisms.

As shown above, most studies concentrate on one governance mechanism, mainly the board of directors. Research on governance has been highly criticized
for not addressing sufficiently the relationship between the different governance mechanisms (e.g. Brunninge et al., 2007), which becomes particularly relevant in the context of family businesses as often family members are present in different governance bodies making key strategic decisions differently compared to other types of organizations (Nordqvist and Melin, 2002). In addition, Gersick and Feliu (2014) in their review on governance mechanisms used and researched in the family business, stress the need to dig into the process of developing governance structures, since we know what family businesses have, but we do not understand why and how they have it.

1.2. Purpose of the Study

The purpose of this study therefore is to cover these gaps addressed in the literature of family business governance by answering the following research question: Why and how family businesses develop their governance structures? The study draws from Institutional theory applied to governance in family business. It mainly focuses on adoption motivations and institutional work. This dissertation is about content and process. Institutional theory allows for understanding the phenomenon from both sides, because it purports static ideas, such as adopting structures without reflecting, while it also purports a process view when institutionalization processes take place, or when purposeful actors drive change. To understand how governance structures change over time, I also draw inspiration from a process perspective, assuming that structures evolve over time rather than being static. Langley and Tsoukas (2010) highlight the need to understand not only the ‘what’ but also the ‘how’ (moving over time from A to B). Following their analogy, this study aims at providing accounts of ‘how’ family businesses strive to set up a governance structure influenced by legitimacy and efficiency reasons. In doing so, I also focus on the individual actors who drive change, particularly institutional champions.

1.3. An Institutional Lens to Developing Governance Structures

This dissertation uses institutional theory as the main framework to understand the development of governance structures in family businesses. Institutional theory has become a dominant approach to analyze and understand organizations (Mizruchi and Fain, 1999; Palmer and Biggart, 2002; Greenwood, Oliver, Sahlin, and Suddaby, 2008), which offers a powerful explanation for individual and organizational actions (Dacin, Goodstein and Scott, 2002). It emphasizes the embeddedness of actors within a complex social system, where individuals socially construct their institutions (Berger and Luckmann, 1967;
March and Olsen, 2005). At the same time individuals are shaped by their environment and they give life to and change their environment.

Given the embeddedness within larger social, legal and institutional frameworks (Fiss, 2008), governance structures have become widely prescribed, adopted and institutionalized among many organizational fields, as is the case in the family business field (Melin and Nordqvist, 2007). In an effort to understand how and why practices are adopted, some authors point to internal contingent factors such as size, ownership structure (e.g. Lounsbury, 2001), mental models, and educational background of the top management team (e.g. Fiss and Zajac, 2004; Sanders and Tuscke, 2007), as factors that influence the implementation of practices and structures. Another stream focuses on isomorphic pressures as influencers for adopting governance mechanisms (e.g. DiMaggio & Powell, 1983; Palmer, Jennings and Zhou, 1993; Scott, 1987; Venkatraman, Loh and Koh, 1994). These two streams have been mainly treated as separate and antagonist. However, recent efforts have moved toward integrating both, arguing that efficiency seeking and legitimacy seeking go in the same ‘drawer’ as they are embedded in a broader institutional context (Kennedy and Fiss, 2009; Lounsbury, 2002; Thornton, 2004; Tolbert and Zucker, 1983).

The family business context offers a stimulating arena to explore how legitimacy and efficiency reasons affect the development of governance structures. In relation to legitimacy reasons, it can be argued that (1) the family business arena is becoming an organizational field, where a community of consultants, academics and professional associations are increasingly prescribing governance practices and structures to family firms as a way to gain legitimacy, and improve efficiency and performance (Melin and Nordqvist, 2007), which leaves room for understanding how and why these type of organizations develop their governance structures. (2) Family businesses are often considered wise, unorthodox, unusual and even unprofessional, and, therefore they may need to balance such perceptions by conforming to institutional pressures to gain legitimacy (Suddaby and Greenwood 2005). (3) Family businesses, particularly those that are privately held, may lack some important resources depending on their access through external stakeholders, leading to appear legitimate in front of them (Deephouse and Suchman 2008, Pfeffer and Salancik 1978).

Regarding efficiency reasons, (1) the identity and values of the owners and managers of the family business may impact their motives (Miller, Le Breton-Miller and Lester, 2013) behind the adoption of governance structures. (2) The complexity of efficiently managing family and business spheres leads to developing structures that match family business diverse needs (Nordqvist et al., 2014). (3) The decision to ceremonially adopt or further institutionalize governance structures is driven by family members (institutional champions) who drive change by managing efficiency and legitimacy reasons intertwined. Hence, institutional work takes place (Lawrence, Suddaby and LeCa, 2009) as institutional champions deal with their micro and macro environments, not only
changing their own organization over time, but influencing back their environment.

Following Fiss and Zajac (2009) findings that suggest that legitimacy and efficiency seeking go hand in hand, I follow this logic to understand the motivations of family businesses as they are related to their quest to appear legitimate and their need to deal with family and business contingent factors (Nordqvist et al., 2014). This has been largely overlooked in contexts where adoption of structures might be in part due to institutional pressures and in part due to contingent factors.

1.4. Combining Methodologies to Understand the Whole Picture

This dissertation approaches the development of governance structures from a dual perspective. From a realist view, I acknowledge the existence of objects that may show certain stability and are independent from us. But I also contend, in line with social constructionism, that objects are in part socially constructed (Berger and Luckmann, 1967) and those elements that seem rather stable are constantly changing over time (Langley and Tsoukas, 2010). While this seems contradicting, accepting both stances reflects the open mindedness to see the same phenomenon from different and complementary angles.

This dual approach allows for the use of a multi-method approach to understand a complex reality. Previous studies in the field, highlight the need to better understand this topic empirically (Zahra and Sharma, 2004) by means of quantitative and qualitative methods (e.g. Nordqvist et al., 2014). In general terms, the mixed-method research allows to advance in the research process (e.g. gathering data, integrating findings) from both qualitative and quantitative approaches in a single study (Morgan, 2007; Tashakkori and Creswell, 2007b).

Even though combining methods is challenging (Creswell & Plano-Clark, 2011), I believe there are good reasons to do so in this dissertation. Firstly, as Van de Ven and Poole (2005) pose it, the phenomenon studied here deals with content (variance) and process; therefore, focusing only on one method may not unveil the whole picture (Creswell, 2003), and the use of both allows for a process

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2 Many studies that deal with adoption motivations focus on organizational factors such as firm size, performance, functional differentiation, leader characteristics (e.g. Kennedy and Fiss, 2009; Kimberly and Evanisko, 1981; Tolbert and Zucker, 1987; Westphal, Gulati and Shortell, 1997). Some researchers consider them economic or efficiency reasons. For this dissertation given that I have family and business factor, I use the term internal reasons to refer to variables that are directly related to economic and efficiency factors.
perspective, where the quantitative strand provides an account in social life, while the qualitative strand provides sense of process (Bryman, 2006).

In line with the previous reason, in the quantitative strand I suggest some hypotheses relating legitimacy seeking and efficiency seeking with the level of development of governance structures. While this is a linear relationship in a cross-sectional study, the use of Mokken scale analysis (later explained) infers a process over time, as it shows a sequence on the development of such structures. The use of a qualitative strand complements, enhances and illustrates the former strand (Green, Caracelly and Graham, 1989) by opening the black box of such a process, such as when and how efficiency and legitimacy reasons may interact.

In addition, Bryman (2006) points to the advantage of achieving greater validity of the findings when both methods are combined. This is because what we find in the quantitative strand may corroborate the qualitative analysis and vice-versa. Similarly, as the study goes in parallel, it allows capturing paradoxes and contradictions (Green, Caracelly and Graham, 1989) that may emerge from the results of the different approaches, for instance in the supposed sequence expected in the quantitative and the real path followed by family businesses. The openness toward using mixed-methods may allow to being responsive to new insights and offset the weaknesses of one strand by relying on the strengths of the other (Bryman, 2006). Finally, the use of mixed-methods enhances credibility of the integrity of the findings for the above reasons mentioned (Creswell and Plano-Clark, 2011).

1.5. Main Definitions

For clarification purposes this part highlights the main definitions used throughout the dissertation.

*Governance in Family Firms*

While there are several definitions of governance, family business researchers coincide in considering it as a set of structures and processes that allow managing and controlling efficiently for the long-run (Neubauer and Lank, 1998). In this line, I follow the idea explained by Nordqvist et al (2014), that organizations may need to develop adequate structures to “routinely help to understand the needs and concerns of different internal and external stakeholders (e.g., Gersick and Felu 2014; Sharma and Nordqvist 2008)” (as cited in p. 195).

The family business literature highlights the three-tier structure, devoted to separate the family from the business. There are many governance bodies (e.g. advisory board, shareholders assembly, family office, audit committees), yet the most relevant used are family council, board of directors and the top management team (e.g. Hoy and Sharma, 2010) in terms of solving the needs derived from family and business institutions. As part of the increasing
institutionalization in family businesses, researchers highlight the need of setting family policies to prevent the increasing family complexity to erode the family and the business (Aronoff and Ward, 1996). In that sense, the family constitution, which at the end is a set of rules for the family and the business, becomes an integral part of the governance structure of family businesses.

Governance Structures

One of the key concepts in this study is that of governance structure. Family firms need effective governance to sustain over time (Aronoff and Ward, 1996) and meet its long term orientation. There is a general consensus in that effective governance in family businesses requires accountability between shareholders and the business and setting family policies may be of utmost importance to prevent arbitrary decisions (Aronoff and Ward, 1996). In that sense, in addition to these rules, named family constitution – family firms need differing and independent governance processes managed by different bodies or mechanisms: family council to manage family issues, board of directors to manage ownership issues and control the business, and executive committee to manage operational issues of the business.

The definition of governance structure based on Aronoff and Ward (1996) is the following:

The existence of a combination of one or more of the four mechanisms: Executive Committee, Board of Directors, Family Council and Family Constitution, that allow managing the family firm efficiently in such a way that those overlapping dimensions are managed separately but simultaneously, given the increasing complexity of the family and the business.

Adoption vs. Development of Governance Structures

Adoption is understood in this dissertation as a short-term, sometimes reactive response mainly to gain legitimacy. Adoption means to have a board of directors for instance, but does not contemplate the level of development of such mechanism. It also refers to the extent to which family businesses adopt one or more governance mechanisms to form their governance structure. In this sense, adoption is the first step in the development process. This narrow definition serves the purpose of the quantitative strand where the variable is operationalized with dummy variables (existence of a governance mechanism).

The development of a governance structure implies the time factor and it is usually part of a long-term process. In this dissertation, development is seen as a process which includes all stages from symbolic adoption, to substantive

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3 Mechanisms and bodies are used interchangeably in this dissertation.
Institutionalization of a Governance Structure

Institutionalization is defined in this dissertation as the process by which governance structures adopted become internalized (Kostova and Roth, 2002); there is psychological gain enjoyed by all parties involved in the process (Berger and Luckmann, 1967, p. 74); and they are perceived as useful. Finally governance structures are taken for granted and widely followed (Greenwood, et al., 2008), “take on a rule-like status” (Meyer and Rowan, 1977, p. 341), without debate, and exhibit permanence (Tolbert and Zucker, 1983, p. 25).

1.6. Intended Contributions

The aim of this dissertation is to contribute to the family business field and to institutional theory in the following ways. The study addresses the adoption of governance structures in family businesses from a process perspective. This approach expands our knowledge about the process of development, understanding it as an evolving phenomenon that involves different actors and effort. How and why family businesses really adopt their governance structures, is something we still lack knowledge about (Gersick and Feliu, 2014). From a process perspective, I show the specific sequence that family businesses follow, moving from business governance to family governance, when developing their structure, and show the heterogeneity of family businesses with the different patterns they follow in their development.

By drawing on institutional theory I bring new insights to governance (Fiss, 2008) in family businesses, offering a distinct perspective from the traditional agency theory often used. In doing so, I shed light on the different types of motivations influencing such process. Building on previous work on motivations for adoption (Fiss and Zajac, 2009; Lounsbury, 2007), I combine legitimacy seeking and efficiency seeking and show that legitimacy seeking has a strong influence in the decision to adopt governance structures. But if it is not aligned with efficiency seeking, this adoption may be ceremonial, meaning that despite not being really implemented and internalized, they still allow these structures to exist. Efficiency seeking triggers substantive adoption and full institutionalization of such structures. I also found that other major reasons may affect such process: power and learning. Both can act in a positive way (power seeking or accumulated know-how) or in a negative way (resistance to give up power or lack of know-how).

Finally I link Selznick’s (1957) idea of institutional leadership and explore the effortful actions of interested actors (mainly institutional champions) when institutionalizing governance structures in the family business. Chrisman, Chua
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and Steier (2003) link Selznick’s approach to the family business, suggesting that family business entrepreneurs are unique in that they seek to build businesses that are also family institutions” (p.442). Bringing this leadership to a lower level, we can find institutional workers who act on the development of governance structures in the family business.

I also intend to contribute to institutional theory by expanding the adoption/diffusion accounts in the context of family businesses, at least in two ways. On the one hand, I explain the process family businesses follow from adoption, to substantive adoption to full institutionalization, showing that this process of institutionalization may take different paths depending on the specific contingent factors and other motivations in the development of governance structures. These findings expand topics not yet fully explored in institutional theory literature (Boxembaum and Jonsson, 2008). On the other hand, I support Lounsbury’s (2007) argument that legitimacy and efficiency logics are not separate issues, and expand it by explaining how these two seemingly opposing forces interact within the same organization.

In a humble way, this work also tries to give back to corporate governance by introducing a process perspective (Langley and Tsoukas, 2010), where governance structures are not seen as static elements, but as changing elements over time. On another note, it questions whether the existence of governance structures are being taken for granted, as family businesses may adopt them, but ceremonially, meaning that even though a board is in place, board practices are exercised elsewhere.

1.7. Outline of the Dissertation

To cover the objectives of this study, this dissertation is divided in four main parts. The first part is the introduction; the second one is the literature review; the third part works on the methodological part. The last part includes the conclusions as shown in the figure below.
Figure 1. Research Strategy

As shown in figure 1, the research strategy outlines the structure of the dissertation. The first chapter comprises the introduction to the thesis. The second part includes 4 chapters revising the literature. Part 2 deploys the literature review relevant for this research. Chapter 2 introduces the family business literature. Then I review the literature on family business governance in chapter 3. To inform such a topic I rely on a main framework. Institutional theory is thoroughly developed in chapter 4 placing emphasis on isomorphism, practice diffusion and the interplay between legitimacy seeking and efficiency reasons. From the literature on practice diffusion, and isomorphism the main hypotheses...
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are drawn. A succinct review is done to decoupling, substantive adoption, agency and institutional work to get a sense of it (previous knowledge and understanding) to start the qualitative study in an inductive-abductive way. Chapter 5 presents the hypothesis development.

The third part explains the methodology for carrying out the investigation. The Multi-Method approach is thoroughly explained and justified in chapter 6, to answer the research questions. Chapter 7 is devoted to the quantitative strand. The former explains more in-depth the methods and research design. This section explains the data collection and sample selection. The methods are clarified in more detail, and the key constructs are operationalized. The latter explains in detail the analyses and results by method, first presenting the pattern found with Mokken scale analysis. Thereafter it explains the relationships encountered in the regression analysis.

Chapter 8 deals with the qualitative strand, introducing data collection and sampling, to finally present the three family businesses studied. The second part introduces the interpretation and findings on the process of developing governance structures.

The last part, chapters 9 and 10, presents a thorough discussion in light of the theoretical framework and draws final conclusions in a generalized or convergent way. Then implications and contributions are exposed. Finally the boundaries and suggestions for future research are highlighted.
This section provides the theoretical frameworks for the research about the development of governance structures in family businesses. These frameworks allow the formulating of research questions that deal with the following issues: what, why and how. Hypotheses for the quantitative study will also be drawn based on the literature review.

The first chapter gives an overview of family business as a context of study. The next chapter reviews the literature on governance in family businesses. Thereafter, it focuses on the main theoretical framework underlying the study, institutional theory with regards to the diffusion and adoption of governance structures. The following chapter on institutional theory gives a brief account of decoupling and substantive adoption, agency and institutional work to provide a reference framework for the inductive-abductive study. The last chapter in part II develops the hypotheses.
2. Family Businesses

2.1. Why Study Family Businesses

Family businesses represent a unique arena worth studying for numerous reasons. First, family firms represent the majority of businesses in the world (Astrachan and Shanker, 2003), contributing to by far the highest rate of employment, being the main contributor to the PNB of most countries, and supporting the development of the communities in which they are created (Neubauer and Lank, 1998; Heck and Stafford, 2001).

Second, family businesses are composed of families who play a relevant role in firm creation and growth (Aldrich and Cliff, 2003; Steier, 2003) and who control a large portion, not only of small firms but also of large firms, as shown in various studies. For instance, Anderson and Reeb (2003) show that one third of the companies listed in the S&P500 are in the hands of founding families with an average of 18% outstanding equity. These numbers are even higher in European and Asian countries, where businesses are controlled by single majority block-holders (Becht and Mayer, 2001; Goetzmann and Koll, 2003; Morck and Nakamura, 2003).

While family businesses are generally defined in terms of ownership, as seen above, what make them distinct is the family ownership effect in the family and the business (Brundin, Florin-Samuelsson, and Melin, 2014); in other words the family’s involvement, culture, and interactions. In that sense family businesses are unique because they not only deal with typical business issues (such as growth, ROE, competitive advantage), but they also have to deal with a “complex set of social and emotional relationships” (Fletcher, 2002, p. 4), related to two different spheres, that of the business and that of the family.

Thirdly, while family businesses are often wise seen as examples of nepotism or lack of professionalism since Weber (1921, 1968), family firms can offer interesting and rich insights in many areas that can serve as examples to be followed by other types of organizations or simply as examples to be replicated in other family businesses, bearing in mind that they are the backbone of economies. For instance, family firms that are able to “leverage entrepreneurial experience and knowledge can shape local economic development” (Westhead and Howorth, 2007, p. 405). Similarly, family firms that perform better configure their governance choices in a more balanced way (Miller and Le Breton-Miller, 2006a).

Family businesses have often been seen as a homogenous group of companies, which is true in one important aspect, that they are embedded in two different systems or institutions, the family and the business (Lansberg, 1983).
More recent studies, however, acknowledge the heterogeneity of these firms (Corbetta and Salvato, 2004; Chrisman, Chua and Sharma, 2005; Chua et al., 2012; Nordqvist et al., 2014; Wright, et al., 2014), as they differ in many respects. Family businesses range from small “Ma and Pa” stores to large multinationals companies (Lansberg, 1983) with different mental models and ways of managing the company (Gimeno, et al., 2010). Family firms also vary in their goals, mission and strategy (Lansberg, 1983).

Despite tangible evidence of the importance of family businesses in economic and social development, the field of family business has recently begun to grow and gained legitimacy (Collins and O’Regan 2011; Hoy, 2003), and there is still much to bring to the family business field.

Finally, family businesses represent an organizational field (DiMaggio and Powell, 1983), because they interact more frequently with one another (than with others in other fields) sharing a common system of meaning (Scott, 2001, p. 56), where an increasingly “supporting infrastructure of researchers, educators, consultants, non-academic and academic journals, associations and lobbying groups devoted to this particular category of organizations” (Melin and Nordqvist, 2007, p. 321) creates a social space structured through a similar set of discursive processes (Phillips, Lawrence, and Hardy, 2004). By being sensitive to local and contextual conditions (Zilber, 2008) the family business context, therefore, represents a relevant arena for research within organizational institutionalism.

Some of the most powerful reasons to study family businesses and the process of development of governance structures are related to the two intertwined institutions that comprise them, the family and the business; the fact that ownership and management are usually overlapping and family involvement is present in all governance mechanisms typically represented by the same people (Gersick, et al., 1997; Mustakallio et al., 2002); and their idiosyncratic way of doing things.

2.2. Definition of Family Business

One of the caveats of studying family businesses is the lack of consensus in the definition (Chua, Chrisman, and Sharma, 1999). Not only are there plenty of definitions in the literature (Desman and Brush, 1991), but they are also full of ambiguities (Upton et. al., 1993), that is, there is still controversy about the boundaries and source of distinctiveness (Zahra and Sharma, 2004). Two dominant theoretical approaches seem to emerge to define a family business (Chrisman et al., 2005).

In the first approach family businesses are defined in regards to family involvement (Chua et al., 1999; Vallejo, 2007; Miller and Rice, 1967), represented in both, ownership and management (Handler, 1989). Other researchers expand
the boundaries by adding the succession dimension, that is, the existence of a successor (Churchill and Hatten, 1987). Governance is also a key dimension of family involvement (Chua et al. 1999). The involvement-approach faces an important limitation given the sufficient condition on mere involvement, as there is room for interpretation, (Siebels and Knyphausen-aufseß, 2012) as can be observed in the many definitions below.

In the *Entrepreneurship Theory and Practice* (2004) special issue devoted to exploring “theories of family enterprise” for instance, all the articles published used a different definition based on family involvement. Le Breton-Miller, Miller, and Steier (2004) developed a model for family owned business succession where a family firm is implicitly defined as meaning family involvement in leadership, because they focus on management succession. The subsequent article of Zahra, Hayton, and Salvato (2004) defined family businesses “as those businesses that report some identifiable share of ownership by at least one family member and having multiple generations in leadership positions within that firm” (p.369). Morck and Yeung (2004) based their definition on family control of the voting shares with a range of 10% to 20% of family ownership and where the largest shareholder is a specific family. Lastly, Chrisman, Chua, and Litz (2004) following Chua, Chrisman and Sharma (1999) defined a family business in numerous dimensions (ownership, management, and management succession within the family).

Chua et al. (1999) give an overview of the many definitions coined for defining a family business, and categorize them into three main blocks: (a) family owned and family managed; (b) family owned but not managed; and (c) family managed but not owned (p.20). Although, all definitions revisited agree on defining a family business according to the first approach (family owned and managed), there is no great consensus about the remaining categories, albeit the second options is more accepted than the third (Chua et al., 1999). There are also other issues that differ in various definitions, such as what constitutes a family (core or extended) or the degree of involvement of the family in ownership and/or management.

The second approach is essence-based (Chua et al., 1999; Habbershon, Williams, and MacMillan, 2003; Litz, 1995), and complements the first one, asserting that family involvement is a necessary condition that must be ‘directed toward behaviors that produce certain distinctiveness before it can be considered a family firm’ (Chrisman et al. 2005, p. 557). Chua et al. (1999) expand their definition by arguing that it is important to distinguish family firms from other forms of organizations, and therefore a behavioral component should be added. They, therefore propose a definition that highlights family involvement in governance and or management, influencing strategic decisions (e.g., Davis, 1983; Donnelley, 1964; Handler, 1989), and transgenerational potential.

According to Chrisman et al., (2005) the essence approach has the advantage of allowing for operationalizing and capturing the essence of family involvement. Some studies have tried to do so theoretically. Astrachan, Klein, and Smyrnios
(2002) developed the F-PEC scale to capture the level of family involvement measured through power, experience and culture. Others have empirically tested these dimensions (e.g. Cliff and Jennings 2005; Holt, Rutherford, and Kuratko; Klein, Astrachan, and Smyrnios, 2005). Nevertheless, clear definition of such determinants is still lacking (Siebels and Knyphausen-aufseß, 2012).

In addition to the lack of clarity in defining the boundaries and distinctiveness of family businesses, there is growing concern about the homogeneity of family firms. Researchers argue that family businesses are heterogeneous (Chrisman et al., 2005; Sharma and Nordqvist, 2008), and that, there is therefore a need to also define family businesses by type. This faces similar divergences as in the definition issues. Recent efforts have concentrated on defining types of family businesses (e.g. Sharma, 2004; Zahra, et. al., 2004; Astrachan et. al., 2002; Gimeno, 2010; Nordqvist, et al., 2014).

Given the lack of agreement about one single definition, and the divergent propositions, it is necessary to delineate the boundaries and sources of distinctiveness using an explicit definition for the purpose of this study and to present the empirical setting.

As the aim of this study is to understand why and how family businesses develop their governance structures the definition used for this research is based on that of Chua et al. (1999) who suggest that “The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families” (p.25).

For the purpose of this study companies that are considered family businesses have passed at least one generational transition or have overlapping generations working together towards succession, have one or more generations involved in management and in ownership, and have a clear influence and control over the strategic decisions of the company, which certainly involve the development of governance structures.
3. Corporate Governance in Family Business

3.1. Corporate Governance: An Introduction

Corporate governance has become a hot topic in the last twenty years given the many debacles in large corporations that have led to financial scandals. The greater focus on all fronts is mainly the consequence of the numerous setbacks caused by the lack of means and tools to protect and look after shareholders’ interests and the increasing need for accountability to the various stakeholders in a firm (Johnson and Greening, 1999; Shleifer and Vishny, 1997). The last ten years have been particularly active in research (Filatotchev and Boyd, 2009) and policy-making (Demirag et al., 2000; Keasey, et al., 2005), predominantly focused on large and listed companies (Hart, 1995; Gabrielsson and Huse, 2004).

These codes of “good” governance, practices and structures, which are mainly made for large dispersed-owned quoted companies, have been prescribed in all types of companies (large dispersed-owned corporations, NGOs, public companies, and privately held companies with concentrated ownership such as family businesses).

In terms of research corporate governance has been extensively studied from different viewpoints. Research has mainly concentrated on (1) the relationship between owners and managers; (2) the different layers of decision-making mainly focused on board of directors or top management teams; or (3) compensation levels for executives (Keasey, et al., 2005; Monks and Minow, 2004; Tricker, 1996).

A narrow approach has prevailed in the following arenas, however. Using agency theory as the dominant theoretical framework (Filatotchev and Boyd, 2009; Lubatkin, 2007) regarding the role of corporate governance concerned only with the interests of shareholders (Fama and Jensen, 1983), has overlooked other important internal and external stakeholders. This approach also neglects the role of the board as a strategic-decision making tool, defining mechanisms as tools to “support what is best for the firm per se” (p.258). Knapp, dalziel, and Lewis (2011) also add that not only agency theory but also stewardship theory, show a rigid perspective of human nature, and propose other social theories to reconcile those contradictions (cf. Judge, 2011), and the need to take into account the broader environment in which organizations are embedded. Focusing on one governance mechanism, generally the board of directors (Brunninge et al, 2007; Fiss, 2008) considers only part of the equation and assumes no relationships among the different governance mechanisms.
Most of the studies in corporate governance have mainly addressed the relationship between governance structures and performance (e.g. Carney, 2005; Minichilli, Corbetta, and MacMillan, 2010). A key question is what is in the middle. What is the process and why are governance structures really developed. The focus on large quoted companies shows evidence that does not necessarily hold in privately held family businesses, despite the fact that the majority of firms worldwide are privately and family-held (Astrachan and Shanker, 2003; Colli, Fernandez-Perez and Rose, 2003; Morek and Yeung, 2004). Some researchers highlight the concentration of studies in the US context (Durisin and Puzone, 2009; Filatotchev and Boyd, 2009) and advocate for the need to focus on different contexts and institutional arrangements.

Evidence shows that different cultural and institutional contexts lead to different governance structures (e.g. Doidge, Karolyi and Stulz, 2007). In their review of corporate governance research evolution from 1993-2007, Durisin and Puzone (2009) found that in that period there were 97 empirical publications on corporate governance in Strategic Management Journal. Only 19 were made in institutional contexts other than that of the US and all emphasize the uniqueness of their institutional and/or cultural environment. This brings to light the need to study corporate governance in other national settings, and highlights the need to understand the interplay between macro and micro institutional forces.

Finally, the assumption of dispersed ownership (Berle and Means, 1932/1967) does not hold in other contexts where the majority of companies are privately held, with non-dispersed ownership (e.g. La Porta et al., 1997; 1999; 2000; Dyck and Zingales, 2004; Li, Moshirian, Pham and Zein, 2006), and generally in the hands of one or few families. Governance structures are therefore different not only at a national level but even depending on the type of organization.

More recently, efforts are being made to broaden the scope of corporate governance research with a more holistic view of considering it as a set of interdependent elements (e.g. Beatty and Zajac, 1994; Davis and Useem, 2002) embedded in a larger institutional and legal framework (Fiss, 2008). Nonetheless, there is still little research where governance is studied from a holistic point of view, addressing the relationship of the different governance mechanisms (Brunninge et al., 2007; Lorraine, Wright and Huse, 2007).

In general there is a trend to advocate for the incorporation of other frameworks to explain the many and diverse variables that play an integral part of corporate governance theory. For instance, Lubatkin (2007) proposes an embedded governance framework stressing that the behavior of managers (whether as stewards or as opportunistic agents) is embedded in a firm’s social context, and accordingly governance is “in a continual state of adjustment” (p. 59, as managers and owners try to develop more effective mechanisms. He also suggests that this behavior is also embedded in their macro-environment, leading to differences in governance from nation to nation.
3. Corporate Governance in Family Business

This thesis aims to cover some of these gaps. (1) It studies Spanish family businesses, a geographical context, where the institutional context generally differs from that of the US (De Miguel, Pindado, De la Torre, 2004); (2) it unveils the process of development of governance structures (Kenney and Fiss, 2009) from a dynamic approach (for an exception on dynamic dimensions of corporate governance over the company life cycle, see Filatotchev and Wright, 2005); and (3) it focuses on family business governance, since the structures slightly differ from mainstream corporate governance given the ownership concentration and no real separation of ownership and management.

3.2. Corporate Governance in Family Business

Pieper (2003) highlights the lack of consensus over what governance is, as it differs between disciplines and lenses used. In line with major exponents of corporate governance research (cf. Keasey, et al., 1997; Tricker, 1996), governance can be defined as “a system of structures and processes to direct and control corporations and account for them” (Neubauer and Lank, 1998, p. 60) to secure its economic viability and legitimacy (Neubauer and Lank, 1998). According to many authors, however, governance in family businesses is slightly different from mainstream corporate governance (Mustakallio et al., 2002, p.205; Poza, 2007), because it portrays the competing agendas of the different institutions (the family and the business) (Poza, 2007), long CEO tenures, long-term vision of caring for wealth preservation for future generations (Le Breton-Miller and Miller, 2006), multiple and overlapping roles in managing and governing the company (Nordqvist and Melin, 2002; Tagiuri and Davis, 1996), alignment of management, ownership and control (e.g., Goel et al., 2014; Schulze, Lubatkin, Dino, and Buchholtz, 2001, as cited in Nordqvist et al., 2014, p. 194), and concentrated ownership, among others.

There is also an additional requirement, however, which is to order the relationship between family and business (Poza, 2007; Suáre and Santana-Martin, 2004). Effective governance in the family business can be seen as a set of structures and processes that allow efficient management and control for the long-run (Neubauer and Lank, 1998), by “stewarding the multigenerational family organization... [This] establishes the processes whereby: strategic goals are set, key relationships are maintained, the health of the family is safeguarded, accountability is maintained, and achievement and performance are recognized” (Goldbart and DiFuria, 2009, p. 7).

Governance is said to be an important element in the success of a family business, in order to achieve competitive advantage and therefore last over time (Miller and Le Breton-Miller, 2006). As Mintzberg (1983) suggests, organizations may require a mixture of types and degrees of coordination, depending on their
Companies that have been sustainable over time have developed “the types of coordinating mechanisms and the level of coordination necessary to function successfully and efficiently in their environments” (Barry, 1989).

In the early stages of a firm, there is an emphasis on low complexity and thus a symbiosis of ownership and management, given the higher efficiency and better performance achieved when the founder acts as both owner and manager (e.g. Perez-Gonzalez, 2006; Villalonga and Amit, 2006; Miller and Le-Breton-Miller 2007), as personal qualities of the entrepreneur lead to efficiency and sharing or delegating authority and responsibility is difficult (McClelland, 1962). When complexity increases, however, this efficiency declines, and managers need to cope with the problems associated with growth and change (Barry, 1989). One effective way of dealing with those complexities is the creation of governance structures which support both family and business and separate management from ownership, as well as enhancing performance (Gimeno et al., 2010).

3.2.1. Current Research in Family Business Governance

As previously mentioned family business governance is an interesting topic for various reasons. It has been highlighted in previous studies as a key element for competitive advantage and differentiation (e.g. Miller and Le Breton-Miller, 2005, 2006; Carney, 2005; Gedajlovic and Carney, 2010), because it can destroy or create value (Goel et al., 2014).

The complexity that generates the two intertwined institutions, the family and the business (Lansberg, 1983), reveal a different picture in terms of governance, as there is not necessarily a separation of ownership and management, and the degree of family involvement implies differences in interests and goals compared to non-family firms (Bettinelli, 2011; Davis, 2008).

This is because family members often occupy multiple roles in the business (Tagiuri and Davis, 1996; Mustakallio, et al., 2002), being present in the different governance bodies (board of directors, TMT, family council) and making key strategic decisions differently than in other types of organizations (Nordqvist and Melin, 2002). As each family is unique, this creates heterogeneity (Wright et al., 2014). The study of governance in family firms thus introduces new issues that must be taken into account and means that it is an interesting context to study.

3.2.1.1. Traditional Theories Informing Family Business Governance

Most of the studies related to governance in family businesses rely on agency theory and stewardship theory (Goel et al., 2014). On one side, scholars within and outside the family business field have used agency theory to delve into the identification between ownership and management, finding that this identification reduces and even eliminates the agency problem in family
3. Corporate Governance in Family Business

businesses (Daily and Dollinger, 1993; Kang, 2000). Given that ownership and management are intertwined in family businesses leading to desincentivation for expropriating shareholder wealth (Schulze et al., 2001), Daily and Dollinger (1992) argue that they require comparatively lower investments for control mechanisms.

Other studies point to the existence of agency problems in family businesses that are mainly due to altruism (Chrisman, et al., 2005; Gomez-Mejia, Núñez-Nickel and Gutierrez, 2001; Lubatkin, Schulze, Ling, and Dino, 2005; Lubatkin Durand, and Ling, 2007), management entrenchment, and shareholder expropriation (Schulze et al., 2001). Altruism leads to diverse agency problems when owner-managers have discrete control over the resources of a firm, or when they exercise excessive parental altruism (e.g. excessive privileges for their children damaging the business) (Schulze et al., 2003b). Ling et al., (2002) suggest that higher levels of altruistic behavior of the principal, leads to opportunistic behavior of agents, potentially increasing agency costs to curb unproductive behavior.

Management entrenchment may happen when there are differences in interests, power and information that emerge within the business family, as time passes by and new generations come onboard. When size increases and family shareholdership disperses, this leads to less organizational commitment of the individual shareholder (Schulze et al. 2003a; Vilaseca 2002). May (2004) point to the differences in interests of passive and active shareholders in terms of economic goals, as the former may prefer high dividend payouts, while the latter may prefer to reinvest in the business.

Contradicting findings appear in the work of many researchers, who suggest that altruism strengthens family bonds creating collective ownership (Berghe and Carchon 2003; Lubatkin et al. 2005; Stark and Falk 1998; Zahra 2003), reduces information asymmetry through increased communication (Berghe and Carchon 2003). Similarly, high altruism is seen to diminish dysfunctional relationship conflicts facilitating participative strategy formulation processes (Kellermanns and Eddleston, 2004, 2007). Reciprocal altruism can lead to a convergence of interests and thus to reduced agency costs Karra et al. (2006), and can even be a source of competitive advantage (Carney 2005).

A number of studies that focus on family control and performance find evidence that the higher the family control, the lower the performance of the company (e.g. Morck et al., 1988; Smith and Amoako-Adu, 1999). Other studies find that performance can also be affected by prevailing family interests related to wealth preservation over non-family interests, such as dividend maximization (Carney and Gedajlovic, 2003). Interestingly a recent study of O’Boyle, Pollack and Rutherford (2012) using meta-analysis shows that there is no relation between family involvement and the firm’s financial performance.

Some researchers using this lens suggest that family leaders are selfish and use the family business as an instrument to pursue their own goals at the expense of
the company and its minority shareholders (Bertrand and Schoar, 2006; Claessens, Djankov, Fan, and Lang, 2002). Governance structures are considered controlling tools to deal with principal-agent problems. Chua et al., (2009) note that opportunistic behaviors may appear when there is lack of monitoring and control, leading to lower performance (Eddleston and Kellermanns 2007). This brings to light the need to have adequate incentive systems and alignment of governance structures. In other words, there is a need to have an effective governance structure to comply with stakeholders’ expectations (Neubauer and Lank, 1998; Ward, 1991), monitor and control possible opportunistic behaviors (Chua et al., 2009), and eventually reduce agency costs (Fama and Jensen, 1983; Jensen and Meckling, 1976; Pollak, 1985). Some suggestions for adopting governance structures range from long-term relational contracts (Goméz-Mejía et al. 2001), to controlling boards for passive shareholders (Ang et al., 2000), or family councils (Witt, 2008).

To overcome the previous narrow approach, stewardship theory has taken off as an alternative framework to explain governance issues in family firms. Stewardship theory, contrary to agency theory, leads to the belief that no formal structures are needed to control and monitor managers, and they may even represent higher costs and inefficiency to organizations if implemented, when management and ownership are aligned. This premise is based on the idea that individuals act to serve collective interests, as being individualistic results in a lower return (Davis, Schoorman, and Donaldson, 1997; Greenwood, 2003). Under this framework the family business is seen as an environment free of agency costs in the sense that the family can potentially provide a setting of collaboration and stewardship.

The fact that owners are closely linked to the business through their reputation, their own personal satisfaction in what they accomplish (Ward, 2004) and their emotional attachment to the business (Bubolz, 2001), makes them stewards that work for the benefit of the whole organization, thus reducing agency costs and rendering control mechanisms and structures unnecessary (Davis et al., 1997), leaving room for those resources to be directed towards making the business successful (Chrisman, Chua and Litz, 2004; Corbetta and Salvato, 2004; Hoopes and Miller, 2006). In other words, business families usually have a strong identification among members and a long-term view of the business (Corbetta and Salvato, 2004; Taguri and Davis, 1996). Through this lens, researchers picture family owners as stewards (looking for self-actualization and defending common interests) who work for the benefit of all stakeholders and thus drive businesses to success (Arrègle, Hitt, Sirmon, and Very, 2007; Habbershon and Williams, 1999; Le Breton-Miller and Miller, 2006; Miller and Le Breton-Miller, 2005, 2006).

Braun, Zacharias and Latham (2011), for instance, conceptually explore and compare the governance forms of family businesses and leveraged buyout (LBO), and their performance over the economic business cycle. Braun et al. center their attention on the board of directors, arguing that boards in family
firms that reflect the longer-term orientation of the firm, and look towards non-economic, and economic goals may be better prepared for economic downcycles, whereas given their orientation towards shareholder value maximization, LBOs may do better in economic growth. Davis, Allen and Hayes (2010) measured value commitment, trust, and agency as elements of stewardship behavior in family leaders.

More recently, some researchers have combined the competing theories of agency and stewardship, arguing that they are (or can be) complementary, in order to explain governance and how it affects performance, giving a broader view of what happens in the family firm context and trying to find out what makes them outperform or at least perform differently than other forms of organization. Most of the studies agree on the importance of ownership concentration as an important element that makes family businesses outperform their non-family counterparts (Miller and Le Breton-Miller, 2006; Prencipe, Bar-Yosef, Mazzola and Pozza, 2011).

In their conceptual article, Miller and Le Breton-Miller (2006) argue that agency and stewardship theories combined can explain why or when family businesses are able to outperform other businesses. They use four governance choices and show the pros and cons of each one. They demonstrate that family firms are heterogeneous and that they can take advantage of stewardship behavior and lower agency costs. This is more feasible when there is ownership concentration that control votes, when a strong family CEO is accountable to independent directors, when multiple family members occupy management positions or when multiple generations advocate for continuity of the family business.

Braun and Sharma (2007), in line with what Miller and Le Breton-Miller propose, find that ownership concentration matters and that CEO duality (the CEO being also Chair of the Board) affects firm performance, depends on the family ownership concentration. In other words, they show that “having a different person occupying the CEO and board Chair position is a useful governance control mechanism as the risk of family entrenchment increases” (p. 111). In their study of Italian firms Prencipe, et al. (2011) also confirm that ownership concentration matters in reducing income smoothing, highlighting that the nature of the dominant shareholder matters in order to understand the motivations of income smoothing.

In their recent review and agenda, Goel et al. (2014) also note some other approaches that have been recently but scarcely incorporated into family business governance studies, such as social and relational capital (Jones, Makri, and Gomez-Mejia, 2008) and a contingent approach on agency and stewardship behavior (Corbetta and Salvato, 2004) suggesting that family and business features condition a specific behavior (Goel et al., 2014).

While these theories have been successful in explaining part of the picture in relation to governance in family businesses, they lack, as in mainstream corporate
3.2.1.2. Institutional Theory to Inform Family Business Governance

More recently, some scholars have moved their attention to external issues on corporate governance in family businesses and have relied on institutional theory to address these issues.

Leaptrott (2005) gives an overview of how institutional theory can contribute to family business studies and draws some propositions. One of them suggests that the degree of institutionalization of a governance structure (formality) is positively related to the degree of family involvement. Institutional theory has also been used to explore how governance structures in family firms are shaped by the pressures of various levels of institutions (e.g. Nordqvist and Melin, 2002). The increasing institutionalization of governance practices in family businesses has been theoretically addressed, including how researchers and practitioners play an important role in shaping and imposing certain governance practices (Melin and Nordqvist, 2007), while families also take part as active players in the adoption of these practices. Parada, Nordqvist and Gimeno (2010) found that professional voluntary associations influence change in governance practices, usually led by an institutional champion. Selekler-Goksen and Öktem (2009) studied the impact of institutional pressures on boards of directors in Turkish family businesses, showing evidence that they resist institutional pressures through ‘avoidance’, ‘defiance’ and “manipulation” strategies (p. 193).

The recent study of Miller et al. (2013) compares family vs non-family businesses in regards to strategic conformity. Using institutional theory and socio-emotional wealth concepts, their hypotheses broadly cover how governance influences conformity to strategy. Their main findings show that family firms tend to conform more than non-family businesses. The fact that their sample derives from listed companies, may have an important effect as they are more exposed to institutional pressures. Miller et al (2013) explain that they do not know whether the behavior of privately held family businesses may differ or not.

While there are some studies that dig deeper to determine the triggers for adopting governance structures and practices in family firms (e.g. Melin and Nordqvist, 2007; Parada, Nordqvist and Gimeno, 2010), there is still a dearth of understanding about why and how governance structures are developed. This is because governance structures are taken for granted and the process is not much taken into consideration. Hence, institutional theory seems a promising framework to understand governance issues in family firms, and complement previous studies by considering different aspects of family business governance.
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3.2.1.3. Conclusion

Most of the studies that deal with governance in family firms rely on agency and/or stewardship theory to explain why or when family businesses outperform non-family businesses. The underlying assumptions of these theories leave aside not only other stakeholders but also the environment that plays an important role in the equation. Similarly, in the majority of the studies governance is the independent variable (or one of them) that will influence performance.

Little is known, however, about what triggers the development of governance structures, mechanisms or practices in the first place (governance as the dependent variable). In other words, the existence of governance structures is taken for granted. This is where this study aims to shed light, by focusing on the development of governance structures. The next section therefore reviews what has been studied in terms of governance structures in family businesses.

3.2.2. Governance Structures in Family Businesses

Numerous studies argue that family businesses need effective governance structures to manage the overlapping spheres of family and business (Aronoff and Ward, 1996) by supporting “the development of planning, decision-making, and problem solving structures for both the family and business systems” (Carlock and Ward, 2001, p. 140).

This may lead to competitive advantage (Carney, 2005) and surviving over time (Miller and Le Breton-Miller, 2006) as “effective” governance structures enhance cohesiveness among family members (Lane, Astrachan, Keyt, and McMillan, 2006) and improve performance (Neubauer and Lank 1998; Schulze et al., 2001).

The family business literature highlights and recommends two sets of structures related to family and business governance, those for managing the family and those for managing the business (e.g. Aronoff and Ward, 1996; Carlock and Ward, 2001; Gallo and Kenyon-Rouvinez, 2005; Hoy and Sharma, 2010; Neubauer and Lank, 1998; Nordqvist, 2011).

Most researchers agree on the importance of having a three-tier structure, a mechanism that deals with family issues (meetings and rules), a mechanism that deals with strategic issues and serves as a link between the family and top management (boards) (Carlock and Ward, 2001, Gallo and Kenyon-Rouvinez, 2005), and a mechanism that has to do with management issues (committees/top management teams) (Aronoff and Ward, 1996; Gallo and Kenyon-Rouvinez, 2005; Gersick et al., 1997), to organize and manage the overlapping family and business spheres.
3.2.2.1. Family Governance

The literature suggests a number of mechanisms that aim to deal with family issues, mainly from an ownership perspective. These mechanisms are related to meetings that serve as arenas for discussing important issues related to the family and the relationship between family and business (Carlock and Ward, 2001), and a set of family agreements that serve as guidelines for future behaviors, actions and decisions (Aronoff and Ward, 1996).

**Family Meetings**

Neubauer and Lank (1998) suggest three family mechanisms as arenas for tackling family issues, the family meeting, the family assembly and the family council. All are defined as arenas for discussing topics of interest to the family as both family and business owner (Neubauer and Lank, 1998), to support decisions and provide leadership (Carlock and Ward, 2001). These three mechanisms are not really clearly defined, however, and seem to vary in their degree of institutionalization, the increasing number of family members in each stage, and/or the generational change.

Family meetings are seen as a planning tool where shared decisions can be made (Ward and Hardy, 1988), leading to continuity (Aronoff and Ward, 1996). Most authors define family meetings as more informal and “in petit comité” reunions in the first stages of a family business, with the most developed form of family meeting involving regular sessions defined as family councils (cf. Aronoff and Ward, 1996; Carlock and Ward, 2001; Neubauer and Lank, 1998) in later stages or when complexity increases. Nordqvist (2011) categorizes arenas for strategic work in family businesses ranging from informal arenas - ad-hoc at home family meetings or even casual conversations - to formal arenas - family councils. He highlights the need for a combination of arenas and for representation of family and non-family members.

For the purpose of this dissertation, I study the family council, as it represents the most important and also the most prescribed family arena (e.g. Aronoff and Ward, 1996). It is “an institutionalized way to hold family meetings periodically” (Koeberle-Schmid, et al., 2014, p. 150).

The family council is an arena unique to family businesses (Siebels & Knyphausen-aufseß, 2012), a space to discuss about and align different values, views and behaviors toward the business (Gersick et al. 1997; Koeberle-Schmid 2008a). Hoy and Sharma (2010) explain the role of the family council as follows:

“…to facilitate communication among family members and to formalize-decision making as they relate to the company. The council is a means of family governance.

It is an organizational and planning arm for the family, allowing members to participate in shaping values, policies, and directions for the family regarding their relationships with the enterprise that led to the formation of the council. Councils may formulate
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standards for family behavior, support educational programs, organize events, provide venues for conflict resolution or perform other services for or on behalf of the family members” (p. 225).

In similar vein, other researchers describe the role of family councils as one of a “family board” to deal in a more professional way with family issues (Carlock and Ward, 2001; Poza, 2007), encouraging the participation of family members in decision-making, planning and problem solving, by socializing, educating and informing family members (Carlock and Ward, 2001; Poza, 2007; Ward, 1991).

Family councils are also seen as arenas for strategy making (Nordqvist, 2005, 2011), and mechanisms to set the boundaries between family and business (Gersick et al., 1997) as long as they are accompanied by other governance mechanisms that support and complement the family council to create a coherent governance structure (Lansberg, 1999).

In summary, a family council serves as a tool to transmit the interests of the family to the business, to ensure family cohesion and to perpetuate family ownership across generations (Koeberle-Schmid 2008a; Uhlman 2006; Zahra and Pearce 1989). This body can be composed of either solely family members, or with extended family participation, or even a group particularly selected for working on specific tasks related to decision making in terms of the education of family members, business matters and other issues related to the involvement of the family in the business (Goldbart and DiFuria, 2009; Jaffe, 2005; Lansberg, 1999).

Most of the studies dealing with family councils propose them as a response to solve family problems, and as leading to unity and continuity (Poza, 2007). Redlefsen (2004) shows the role of family councils in mitigating the negative consequences that may appear when family shareholders sell out.

Many books recommend family councils for the reasons mentioned above (the role they play in the family business) (e.g. Aronoff and Ward, 1996; Carlock and Ward, 2001). What appears evident is that given the heterogeneity of family businesses, there is no “one size fits all” family council (Jaffe and Lane, 2004). Not much empirical research, however, has been done on this topic.

So far, why, and especially how, family businesses decide develop a family council has not much empirically investigated. Helin (2011) shows evidence about how family meetings “become”. From a process perspective and giving a central place to dialogues, she explains how family meetings are constructed over time. Her study is one of the few that see governance mechanisms, specifically family meetings in a processual way, and tries to open the black box on the process of developing a governance mechanism. No other study to my knowledge focuses on why governance structures in family businesses are really created and how they are developed over time from a process perspective.

In summary, the family governance mechanism that has been most widely prescribed by academics and consultants, is the family council (e.g. Aronoff and
Ward, 1996; Carlock and Ward, 2001; Gimeno, et al., 2010; Lansberg, 1988, 1999, 2007; Neubauer and Lank, 1998; Ward, 1987, 1991), regardless of the different roles the family council can have and the motives for creating and developing them.

**Family Agreements**

Another relevant mechanism for dealing with family issues, and one that is highly recommended by family business consultants and academics is the set of rules that limit and define the boundaries of the family in the business. In general these rules serve as a basis for reducing conflict and increasing trust (Astrachan and Stider, 2005; Carlock and Ward, 2001).

Different terms are used to refer to these formal usually explicit and written rules: family policy (e.g. Aronoff and Ward, 1996), family constitution (e.g. Astrachan and Stider, 2005; Carlock and Ward, 2001; Gimeno et al., 2011; Lansberg, 1999), family firm law (Van der Heyden, Blondel and Carlock, 2005), and family protocol (e.g. Astrachan and Stider, 2005). The constitution is seen as a mechanism to articulate the family’s rules, values and philosophies (Astrachan and Stider, 2005), which guide future decisions and actions (Aronoff and Ward, 1996) and help in the transition from personal trust to institutional trust (Carlock and Ward, 2001). This document may include topics related to succession, family unity, conflict resolution, appointment of board members, family organization, and family education and information, among other important issues (Aronoff and Ward, 1996; Astrachan and Stider, 2005; Carlock and Ward, 2011; Lansberg, 1999; Van der Heyden et al., 2005). By defining the rules of interaction among family members and between family and business (May 2007; Witt 2008), therefore, it deals with sensitive topics such as in-laws, dividend pay-outs, or hiring policies.

Most academics agree that constitutions should be flexible mechanisms that need to be adapted over time according to the needs of the family (Astrachan and Stider, 2005; Carlock and Ward, 2001; Gimeno et al., 2010; Van der Heyden et al., 2005). For instance, Van der Heyden et al. (2005), in their study on fair process in family businesses describe constitutions as “family firm laws” that can facilitate fair process in decisions (p.20). This is because constitutions represent guidelines for the behavior of the family towards the business, and can assure the continuity of the family business over time only when it is possible to make changes as far as needed. Important requirements in creating constitutions are consensus (Carlock and Ward, 2001; Van der Heyden et al., 2005), communication among all family members, and consistent application (Carlock and Ward, 2001).

Gimeno, Baulenas and Coma-Cros (2010) also highlight the benefits and role of a constitution, in relation to the process per se, and particularly criticize the overemployment and misuse of constitutions that in the end can result in failure because of a difference in values among members, or a lack of trust among them.
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(Montemerlo, 2000). Recent studies show that family governance structures and practices (e.g. family constitutions and family councils) build a strong and unified business-owning family, leading to higher financial performance mediated by a value creation orientation as a family (Berent-Braun and Uhlman, 2012).

While family constitutions are widely prescribed, there are really few articles that are research-grounded on the creation and development of family constitutions (for an exception see Gimeno et al., 2010). Most of the studies that tackle the family constitution do it either as practitioner books, which usually illustrate the use and the advantages of family constitutions with examples (e.g. Aronoff and Ward, 1998; Carlock and Ward, 2001; Poza, 2007), or deal with the topic tangentially (e.g. Craig, Dibrell and Davis, 2008; Van der Heyden et al., 2005; Venter and Boshoff, 2007). For instance Craig et al., (2008) in their study of how to leverage family-based brand identity and enhance performance, note that in one of the cases they used in their study they observed that the company saw the need to incorporate business strategies to ensure the explicit transmission of the founder’s values. For that purpose the family hired consultants to help them introduce governance mechanisms. Following best practices, a board of directors, a family council and a family constitution were put in place.

Venter and Boshoff (2007), who studied 2,458 owner-managers in South Africa to understand the organizational factors that influence succession processes in small and medium family enterprises, also highlighted the need for governance mechanisms to have successful succession processes, including a “formal document describing the relationship between the business and the family, such as a family creed or constitution” (p. 50). Hoy and Sharma (2010) assert that family constitutions may be instituted by the family council or vice-versa, that they may be drafted before the formation of the council (p. 226). There is a dearth of evidence about the reasons for adoption, and the process involved in developing family constitutions, however.

3.2.2.2. Business Governance

Business governance is mainly related to mechanisms that help in the good-functioning of the business. The main mechanisms of business governance are the board of directors, executive committees (top management teams), audit committees, and shareholders assembly. For the purpose of this study, the focus is on two bodies, the board of directors and the executive committee. Although boards and top management teams are frequently studied, the process perspective has been neglected so far, leaving room for adding rich insights with regard to these bodies. In addition, they are the most prescribed ones, opening a conversation on the type of adoption, and data available that is particularly rich for these two bodies.
Boards of directors have a long history that started with the joint stock companies, the earliest form of corporation (Monks and Minow, 2008). The board of directors is a legal entity prescribed for large corporations, usually publicly traded and incorporated companies (Poza, 2007). Currently however, even family businesses in many countries are required by law to have one if they are incorporated (Neubauer and Lank, 1998). From its earliest times the board of directors has remained the backbone of governance structures, not only in publicly held corporations but also in family businesses (Neubauer and Lank, 1998), because of its influence on performance and outcomes (Pearce and Zahra, 1992; Johnson et al., 1996; Forbes and Milliken, 1999; Hillman and Daiziel, 2003 (from Van den Heuvel, 2006).

In fact, nowadays the board of directors is considered one of the most important governance mechanisms in family firms (Carlock and Ward, 2001; Gallo and Kenyon-Rouvinez, 2005), as a way to align shareholder’s and manager’s interests (Voordeckers et al. 2007). Most of the research pursued about boards of directors has used agency theory as the underlying framework, assuming that shareholders need to be protected from the opportunistic behavior of managers. These assumptions lead to short-termism (Huse, 2007). The immense bulk of work under this lens has been done in large companies (Charkham, 1995) with the premise that companies have dispersed ownership, and management and ownership are clearly separated as described by Berle and Means (1932). The ownership structure described under this model represents the Anglo-Saxon reality but does not necessarily hold in other regions such as Western Europe or in Japan, where concentrated ownership is prevalent (Morck and Nakamura, 2003). Morck and Steier (2005) in their introductory chapter about The Global History of Corporate Governance, nicely explain the differences in governance in different countries based on the idea of capitalism. The authors contend that most countries differ from the Anglo-Saxon dispersed ownership structure entrusting the power to the CEO. They develop three other forms of capitalism. Family capitalism relies on families that own the majority of large businesses in the country, where governance is entrusted to few wealthy families, as might be the case in Latin America. Bank capitalism relies on banks that play a monitoring role, for instance in Germany or Japan. State capitalism leaves the monitoring role to the State, where they intervene if necessary, as in France. Their work explains from a historical perspective how boards of directors have evolved over time in different countries and expose the importance of understanding other relevant regional contexts such as Spain. Recent studies acknowledge the importance of boards of directors also in small and medium-sized companies, with concentrated ownership (private firms) (Van den Heuvel, Van Gils, and Voordeckers, 2006).

The creation of boards of directors has been widely recommended no matter the size (Ward, 1991) or the type of company, because the role of the board is
not limited to monitoring\(^4\), or advising and value-adding\(^5\), but is also involved in strategic issues, and it serves as a bridge between family and business by dealing with issues related to succession planning (Ward, 1991), TMT development (Lansberg, 1999; Ward, 1991) or bridging communication with and among the family (Huse, 2007; Johannisson and Huse, 2000).

Boards are seen as critical resource providers, especially when they include outside directors\(^6\) (Huse, 2005; Neubauer and Lank, 1998; Ward, 1991). Research has shown that efficient boards are relevant for small and medium-sized companies because they lead to value creation and firm continuity (Borch and Huse, 1993; Johannisson and Huse, 2000; Zahra and Pearce, 1989; Van den Heuvel, 2006). Van den Heuvel et al. (2006) have made a comprehensive overview of the literature on board roles in small-medium sized firms and family firms and found that most studies in these types of firms are also predominantly undertaken via an agency theory approach, “sometimes in combination with the resource dependence theory and/or the resource-based view” (p.475).

Most studies have analyzed the role of size and composition of boards where contradictory findings show either a positive or a negative correlation with performance (e.g. Boyd, 1990 vs. Dalton, Daily, Johnson, and Ellstrand, 1999). Some researchers highlight the importance of independent board members for their capacity to better exercise their controlling role as they are not affected by interfamily pressures which allows them to perform their controlling role (Klein, 2005, as cited in Siebels and Knyphausen-aufseß, 2012), but reality shows that family firms are still reluctant to incorporate independent boards for the fear of losing decision-making power (Voordeckers et al. 2007). Moreover, family businesses tend to assign outside directors as a response to external stakeholders pressures (Fiegener et al. 2000). Other studies concentrate on the size of the board alleging that larger boards increase the level of control (Corbetta and Salvato 2004b) and give more accountability, but can also diminish decision capability and dissolve individual responsibility (Lane et al. 2006; Neubauer et al. 1998). In their study, Lane et al. (2006) suggest that the optimal size of a board ranges from 7 and 12 members. Jaskiewicz and Klein (2007) suggest that board structure and board size depends on the level of goal alignment of its members, where larger boards will be composed when there is less goal alignment.

Under agency theory boards of directors are purported as instruments for external actors, and serve to control and monitor the agents (managers) (Fama

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\(^4\) From an agency theory perspective, boards are instruments to monitor the self-interested behavior of the manager and to protect the shareholder from risks
\(^5\) Stewardship theory relies on the assumption of trust, altruism and disinterested behavior, which leads to lower agency costs and fewer agency risks. Therefore boards advise managers and add value to the company
\(^6\) Resource dependence theory argues that boards can help the business in achieving competitive advantage if it brings onboard directors with additional knowledge and resources.
and Jensen, 1983) and for value protection (Huse, 2007), where boards and board members need to be “sufficiently independent to resist managerial dominance or hegemony” (Huse, 2005, p. 42).

Resource dependence theory is considered a powerful framework by which to understand board issues (e.g., Johnson et al., 1996; Zahra and Pearce, 1989). The premise of resource dependence theory is that boards bring additional contingent resources and/or minimize dependence (Pfeffer, 1972b), as long as they match specific environmental needs (Makri, and Gomez-Mejia, 2008). Resource dependence theory also highlights the role of boards of directors as key resource providers for specific types of organizations depending on their lifecycle (Zahra and Pearce, 1989), especially relevant in entrepreneurial (Daily, McDougall, Covin, and Dalton, 2002) or early life cycle stages (Daily and Dalton, 1993; Gabrielson; 2007; Lynall, Golden, and Hillman, 2003), or in times of crisis, decline and bankruptcy (Arthaud-Day, Certo, Dalton, and Dalton, 2006; Cameron, Kim, and Whetten, 1987; Daily, 1995). For instance, Huse (2005) suggests that outside board members provide complementary know-how derived from their personal and professional qualifications.

Other studies also highlight the importance of such individuals in providing access to external resources derived from their networks and contacts, enabling them to provide more nuanced advice (e.g. Arosa et al., 2010). An important task attached to outside board members is that of keeping the family dynamics away from the business discussion, by focusing on objective facts and achieve consensus (cf. Bammens et al., 2010; Johannisson and Huse, 2000).

What has been shown is that most studies approach the study on boards through a one size fits all approach, which does not seem to be adequate given the heterogeneity of family firms (Corbetta and Salvato, 2004). Recent efforts have tried to move away from this generalization to instill a contingent approach given the increasing complexity of family businesses over time (e.g. Gimeno, 2004; Sharma and Nordqvist, 2013). Sharma, Melin and Nordqvist (2014) in their introductory chapter of the Sage Handbook of Family Business highlight the need to be more contextual. Gersick and Feliu (2014) in a comprehensive review of governance in family businesses, note the need to dig deeper into the relationship between the different governance bodies.

There is still much to do, as family business boards remain understudied (Bettinelli, 2011), and there are only limited studies in privately-held family businesses (Gersick and Feliu, 2014). Gersick and Feliu (2014) also demonstrate that most studies concentrate on board structure and demographics. This shows the taken for granted nature of the existence of such boards. Similarly, many authors highlight the lack of knowledge of board process (Forbes and Milliken, 1999; Carver and Oliver, 2002), asserting that normative literature focuses on what boards should be and do but fails to show the extent to which this is really applied (Zahra and Pearce, 1989).
Executive committees

Executive committees are differently defined in the literature. On one hand, executive committees, also called executive councils (Hoy and Sharma, 2010) are defined as regular meetings where the top management team gathers to “discuss the developments and strategies to achieve the objectives of the firm” (Hoy and Sharma, 2010, p. 229). This definition separates the top management team from the governance body. In the general management literature, however, executive committees have been used as synonyms of top management teams. In the family business literature, recent work defines the TMT and as “a body that meets regularly to discuss the developments and strategies to achieve the objectives of the firm” (Nordqvist et al., 2014, p. 196).

Gimeno et al. (2010) define executive committees as collective management bodies. The scope of the executive committee ranges from informative meetings (those where information is shared among managers but it is the CEO who makes the decisions), deliberative committees (where issues are jointly debated analyzing and assessing information, but the final decision and recommendations are made by the CEO), to decision-making bodies (where the executive committee is set forth, making decision collectively)\(^7\) (Gimeno et al., 2010). Little research exists on the executive committee as a governance body separate from the TMT. Therefore, the literature review made here reflects the work done in relation to TMT.

Most studies about TMTs in family business concentrate on the degree of family involvement and the benefits or disadvantages that this can bring to the business. Some studies highlight the importance of having mixed TMTs that include family and non-family firms as they play a key role in managing the company with complementary skills (e.g. Poza, 2007; Gersick et al., 1997), while the inclusion of non-family members also “help set the standards for work ethic, accountability, dedication, and expertise” (Poza, 2007, p. 249), and such combination enhances the functionality of the TMT body, reflecting the level of family involvement in day-to-day operations (Nordqvist et al., 2014).

Ensley and Pearson (2005) suggest that familial top management teams work better than non-family TMTs as familial teams will show stronger or more positive behavioral dynamics including, conflict, cohesion, potency, and shared strategic cognition. They also show that parental teams (a mixed team of parents and children) outperform those with less closeness (familial teams which may include siblings, cousins, etc.). Interestingly, and counter-intuitively they find that non-family TMTs have fewer idea conflicts than familial teams. This study does not show the impact of mixed groups.

\(^7\) For a thorough understanding of the role of each type of executive committee refer to the book Family Business Models by Gimeno et al., (2010, p.140-143)
In fact, the commentary of Nordqvist (2005, p.287) on Ensley and Pearson’s (2005) article goes one step further and highlights the need to “better understand when a family dominated team is efficient in organizing and when a team with more outsiders increasing heterogeneity is to be preferred”. The author suggests that “in homogeneous teams, such as those dominated by members of the same family, there is the often-mentioned risk of ‘group-think’ (Janis, 1982 as cited in Pearson, 2005), where failure to incorporate outside perspectives in making decisions can lead to abbreviated consideration of alternatives and adherence to flawed or obsolete assumptions” (p. 287). There is therefore a need to go beyond the analysis of only family composed teams.

Interestingly, the study of Minichilli, Corbetta and McMillan (2010) yield opposing results as to what has been claimed so far (that family dominated groups perform better or lead to better performance), confirming that mixed groups of family and non-family members can be detrimental for firm performance as they tend to form subgroups and create division among the whole group.

In summary most research on TMT or executive committees in family businesses focuses on the behavioral dynamics and how they can lead to better performance. While this is an important topic and crucial for understanding what can improve the performance and hence survival of family businesses, an important slice of the pie is missing. How and why these structures are developed remains underexplored.

3.2.2.3. The Need to Interrelate Different Governance Mechanisms

The relationship among the different governance mechanisms is a topic not often tackled in the literature (Gersick and Felu, 2014; Rediker and Seth, 1995) despite the importance of understanding them holistically and how they affect a firm’s outcomes (Brunninge et al., 2007). In fact, Brunninge et al. (2007) note that “previous research typically assumes that governance mechanisms operate independently of each other” (p. 295) and assert that “especially, the notion of corporate governance as dealing with the interaction between a firm’s ownership, board and top management has not been sufficiently explored in the literature (Monks and Minow, 2004; Tricker, 1996)” (p. 295).

Recent efforts have focused on interconnecting different governance mechanisms and show how they relate to each other and/or the effect on the firm’s outcomes. For instance Gimeno et al. (2006b) show that the effectiveness of one governance mechanism (board of directors, executive committee, family council, and family constitution) is influenced by the presence of other governance mechanisms. More specifically, the existence of a family constitution helps the family council to work more efficiently and concentrate on family issues. This, in turn prevents the intrusion of family issues in the board of directors’ agenda. The board of directors will therefore be able to fully
concentrate on strategic and business issues thus performing better. In turn the
top management team will not be distracted from the day-to-day operations
(Gimeno et al., 2006b; Gimeno, et al., 2010). In a conceptual paper, Gimeno,
Labadie, Saris and Mendoza (2006a) suggest that family governance mechanisms
affect performance in terms of satisfaction and profit, and business governance
mechanisms affect profit.

In a later study, however, Gimeno et al. (2006b) find that the functionality of
governance structures has an indirect effect on profit and satisfaction and the
functionality of family council directly affects performance in terms of
satisfaction. In other words, when family businesses have institutionalized
governance structures (meaning that they work properly) and the family
constitution fits their needs, performance increases notably (Gimeno et al.,
2006b).

In their study of German trade registered family-owned firms Pieper et al.
(2008) suggest that companies that have higher levels of goal alignment (which
are seen as informal control mechanisms) lead to less likelihood to adopt a board
of directors (a formal control mechanism). Companies with low levels of goal
alignment tend to have boards of directors. Similarly, their results show that
businesses that do not have boards of directors tend to reflect their control
mechanisms in the level of involvement of family members in the TMT, “…the
level of goal alignment is positively related to the percentage of family members
in the TMT” (p. 385). This study demonstrates that boards of directors and
TMTs are closely related, as the presence or absence of a board will condition
the composition of the TMT mediated by the level of goal alignment. Brunninge
et al. (2007) investigate how different governance mechanisms influence the
ability of SMEs to drive strategic change. The first conclusion is that the
introduction of governance mechanisms can increase the strategic capacity and
competence of a firm. The authors focus on boards of directors and TMTs, and
as in the previous studies, they confirm that there is a close relationship between
the board of directors and the top management team. Results show that outside
directors may positively affect strategic change. In the absence of outsiders a
business can gain competence by enlarging the TMT size.

These studies show the importance of approaching governance issues in a
more holistic and multilevel way considering different governance mechanisms
as they are closely related and influence each other in different ways. This is one
of the arenas to which this study intends to contribute, approaching governance
from a holistic perspective and understanding how governance mechanisms
relate to each other. One important contribution in this dissertation, in this sense,
is also the consideration of family and business governance.
3.2.3. Conclusion

In summary, given the need to manage family and business systems in parallel (Carlock and Ward, 2001) researchers agree on the necessity of different governance mechanisms to deal with family and business issues separately (e.g. Gersick and Feliu, 2014). Academics and consultants prescribe the family council, the board of directors and the executive committee as effective governance mechanisms to manage the complex and overlapping relationship of family and business (Aronoff and Ward, 1996; Gallo and Kenyon-Rouvinez, 2005; Gimeno, 2006; Lansberg, 1999; Neubauer and Lank, 1998; Schwartz and Barnes, 1991; Ward, 1991; Ward and Handy, 1988).

In the search for effective governance, and as part of the increasing institutionalization of family businesses, researchers also highlight the need to set family policies to prevent the increasing family complexity eroding the family and the business (Aronoff and Ward, 1996). In that sense, the family constitution, which is a set of rules for the family and the business, becomes an integral part of the governance structure of family businesses as an important mechanism to achieve effective governance structures. As previously mentioned, research suggests that the existence of each of these institutions or mechanisms reinforces the functionality of the others (Gimeno et al., 2006b; Gimeno et al., 2010).

Despite the wide range of studies highlighting the need to have different governance mechanisms to deal with two overlapping systems (e.g. Aronoff and Ward, 1996; Gersick et al. 1997; Gimeno et al., 2010), governance research still has room for further study on the topic because for the following reasons. Research has mainly concentrated on one type of governance mechanism, basically, the board of directors (e.g. Zahra and Pearce, 1989; Daily and Dalton, 1993; Rediker and Seth, 1995; Johnson et al. 1996; Forbes and Miliken, 1999; Corbetta and Salvato, 2004) leaving aside others.

The relationship of those main governance mechanisms has not often been addressed (Brunninge et al., 2007; Gersick and Feliu, 2014; Tricker, 1996; Monks and Minow, 2004). Given the increasing institutionalization of family businesses (Melin and Nordqvist, 2007) and with those mechanisms widely recommended by advisors and academics, there is not much research showing why family businesses adopt governance structures in the first place. In addition, there is no further understanding of the process of developing governance structures. Studying different levels of analysis is important in governance studies, which has rarely been done (Fiss, 2008; Sharma et al., 2013). Finally, the governance literature takes for granted the existence of governance mechanisms as if they are

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8 Neubauer and Lank (1998); Gimeno (2004); Gimeno et al. (2010) call these mechanisms ‘institutions’. To be consistent throughout the thesis, this document uses the term ‘mechanism’ to refer to the elements that comprise the governance structures.
3. Corporate Governance in Family Business

ready to be used. Given these gaps in the literature this dissertation concentrates on the motivations for adoption and the process of developing governance structures in family businesses.

To better understand this phenomenon, I use institutional theory as the main framework, in combination with contingent factors, which are explained in the following sections.
4. Institutional Theory

4.1. Introduction

As shown in previous sections, institutional theory represents an adequate framework to study governance in family businesses for various reasons. First, it pays more attention to the social context in which organizations and individuals are embedded. Family business is becoming an organizational field, where consultants, academics and professional associations have become sources of institutional pressures and legitimation, prescribing governance practices and structures to family firms (Melin and Nordqvist, 2007). Second, institutional theory is suitable to unveil governance issues from a holistic view, given that “institutionalized activities are the result of interrelated processes at the individual, organizational and interorganizational levels of analysis” (Oliver, 1997, p.700), and fits the need to perform the study across various levels of analysis (Fiss, 2008). Institutional theory has also proven to be useful in explaining change processes (Greenwood and Hinnings, 1996).

Given my interest in understanding the process of development of governance structures in family businesses, and the factors that influence such process, I address the calls of Tolbert and Zucker (1983) to combine the search for efficiency and legitimacy in the same study, and reveal the development of governance structures from a process perspective (Kennedy and Fiss, 2009).

In the following sections I review the main concepts that will be used in throughout the dissertation.

4.2. General Overview

Institutional theory is currently one of the dominant approaches for analyzing and understanding organizations (Mizruchi and Fain, 1999; Palmer and Biggart, 2002; Greenwood et al., 2008), and is becoming a powerful explanation for individual and organizational actions (Dacin, Goodstein and Scott, 2002). It emphasizes the embeddedness of actors within a complex social system, where individuals socially construct their institutions (Berger and Luckmann, 1967; March and Olsen, 2005). At the same time individuals are shaped by their environment and give life to, and change it. In other words, they create, maintain and disrupt institutions (Lawrence and Suddaby, 2006; Lawrence, Suddaby and Leca, 2009).

Institutional theory has mostly focused at macro levels of analysis (global, field, and sector) by approaching the way that ideas, practices and forms are
4. Institutional Theory

transferred to organizations, industries and nations (Powell and Colyvas, 2008). Recent efforts center their attention into micro analysis to better understand “how individuals locate themselves in social relations and interpret the context” (Powell and Colyvas, 2008, p. 276). Defined in diverse ways, institutional theory has demonstrated substantial differences between approaches (Scott, 1987), but there are also some shared broad views (Heugens and Lander, 2009).

Institutional theorists mainly agree on the importance of the influence of social forces on organizational action and decision making (Granovetter, 1985). They also agree on a socially constructed environment (Berger and Luckmann, 1967), where the interpretation of reality is shared and agreed, influencing the process of organizational decision-making (Scott, 2001). Given that institutions are created and developed over time (Scott, 1987) there is a historical component embedded.

There are also tensions within institutional theory (e.g. see Donaldson, 1995), mainly related to “structure and agency” (cf. Hirsch and Lounsbury, 1997). Batillana (2006) comments that this debate, which ranges from “person versus situation, strategic choice versus environmental determinism and voluntarism versus determinism” (p. 653) is related to the researchers’ view about human nature. Basically the main concern is about whether “organizational behavior is primarily the product of macro social forces or of organizational agency” (Heugens and Lander, 2009, p.61). In other words, the main dispute appears when defining the role of the organization or individual either as a passive actor adapting itself to its environment, or as an entity able to think, process information, reflect and decide how to, when to, and to what extent adopt or change organizational structures and practices, and also be capable of influencing their environment in return.

In this quarrel about “structure and agency”, the first approach (early neo-institutional theorists) tends to view institutionalization as a process by which societal expectations and/or institutions influence the structure and behavior of the organization (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Scott and Meyer, 1994). In their need or desire to fit with their environment, and in search of legitimacy, organizations thus accept prescriptions based on institutional norms and rules (DiMaggio and Powell, 1983; Tolbert and Zucker, 1983). Selznick (1957) defines institutionalization as an infusion “with value beyond the technical requirements of the task at hand” (p. 17). The unit of analysis is the whole organization taking into consideration its organic character (Perrow, 1986). Specific processes are also considered but as nested into the whole (Scott, 1987). In this first approach, Selznick (1957) highlights the stability of the structure over time. This constrained behavior by institutions leads to the convergence of structures and practices within a field.

The second approach, infusing an agentic essence, focuses on institutional change and highlights the role of individuals and organizations in producing change (Batillana, 2006). Researchers view organizations and individuals as both
entities capable of reflection and thus able to decide the extent to which they will respond to institutional pressures and entities that influence their environment.

Increasing institutionalization can lead to the raise of institutional entrepreneurship (DiMaggio, 1988; Oliver, 1991). Many studies have focused on institutional entrepreneurship, relying on active agency, interests and resource mobilization to address the role of individuals or organizations in changing or transforming institutions (e.g. DiMaggio, 1988; Fligstein, 1997; Garud et al., 2002; Maguire et al., 2004). Organizations and individuals are seen as agents, able to discern and reflect and not only be changed but also produce change. Contradicting their own work of 1983, therefore, DiMaggio and Powell who argued that mimetic and normative forces lead to simple replication, seen as a passive action, insist on the active role played by the organization. DiMaggio and Powell (1991) emphasize the role of the organization as a reflecting entity that puts effort and energy into the process before following or accepting these institutional forces.

This line of research has been strongly criticized because of the paradox of embedded agency (Holm, 1995; Seo and Creed, 2002), which argues that institutions constrain human agency but that they are also the product of it (DiMaggio and Powell, 1991). So, “how can organizations or individuals innovate if their beliefs and actions are all determined by the very institutional environment they wish to change?” (Batillana, 2006; p. 654).

In the last two decades institutional tenets have highlighted the need to move one step forward and focus on the micro-foundations of institutional theory (DiMaggio and Powell, 1991; Zucker, 1991). Individual analysis is important mainly because it can provide responses to macro-level events and relationships, as organizations or institutions are sustained, changed and even eliminated through the actions and performance of individuals in concrete contexts or social situations. Institutional norms, rules and practices are carried and transferred by individuals through actions, tools and technology. These actors become key pieces in institutionalization processes as they are shaped and they shape their environment (Powell and Colyvas, 2008). By better understanding how individuals behave and locate within social relationships and interpret their context, macro-levels events and relationships may be better understood (Powell and Colyvas, 2008).

According to Powell and Colyvas (2008) much more attention needs to be paid to the everyday activities and processes in organizations. The spotlight should be on members of the organization in all levels, in contrast to what has until now been the trend, mainly focused on institutional entrepreneurs portrayed as “cultural dopes” (Garfinkel, 1967, p.68-75) or heroic “change agents” (Strang and Sine, 2002, p. 503-507). In fact one of the main criticisms of the new approach of institutional theory has to do with the fact that too much emphasis is given to the “hero”, forgetting that these actors are still embedded in a context that is institutionally defined (Lawrence, Suddaby and Leca, 2009).
4. Institutional Theory

It is also important to highlight the need for “multi-level explanations that account for recursive influences” (Powell and Colyvas, 2008, p.278) as there are other factors than just micro-level influences, such as globalization and the organizations themselves, which play an important role in the game and may not be disregarded, or be regarded as single elements (Powell and Colyvas, 2008).

Recent research, defined as “institutional work” aims to bridge the gap between the perspectives of agency and structure, describing “the purposive action of individuals and organizations aimed at creating, maintaining and disrupting institutions” (Lawrence and Suddaby, 2006, p. 215). This approach focuses on how action affects institutions (Lawrence, Suddaby and Leca, 2009) and highlights the importance of studying individuals who are not necessarily institutional entrepreneurs, but individuals who are able to drive change smoothly in their micro-environments (Lawrence, Suddaby and Leca, 2011).

This dissertation aims to bridge the two perspectives. In line with “traditional institutionalism”, this study argues that institutional forces play a key role in determining the way governance structures are set in family businesses. Institutional pressures will therefore condition (DiMaggio and Powell, 1983) the pattern family businesses follow to develop their governance structures as family firms seek legitimacy. Family businesses may be exposed to multiple sets of institutional pressures coming from the macro environment (e.g. professional associations), and the micro environment (the family and the business institutions).

At the same time, and in line with “institutional work” this study takes into consideration individuals (family members) who introduce change and focuses on their “efforts to cope with, keep up with, shore up, tear down, tinker with, transform, or create anew the institutional structures within which they live, work, and play, and which give them their roles, relationships, resources, and routines” (Lawrence, Suddaby and Leca, 2011, p. 53). In that sense, I argue that family businesses will reflect and proactively shape and adapt their structure based on contingent factors (efficiency needs). This is in line with what Scott (2008, p.77) says, quoting Giddens (1984, p. 14):

“Actors are knowledgeable, reflective, and capable of understanding and taking into account everyday situations…. The presence of agency presumes a non-determinant, “voluntaristic”; theory of action: “to be able to ‘act otherwise’ means being able to intervene in the world or to refrain from such intervention, with the effect of influencing a specific process or state of affairs”9.

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9 This agentic perspective derives from Structuration theory of Anthony Giddens (1979,1984)
The quest to comply with legitimacy issues and keep up with efficiency needs may lead to different degrees of adoption (Meyer and Rowan, 1977; Kostova and Roth, 2002) of the governance structure.

In the remains of the chapter the study revises the key concepts of institutional theory that are used in the research.

### 4.3. Institutions and Institutionalization

#### 4.3.1. What is an Institution?

The word ‘institution’ represents a core concept in sociology (e.g. Parsons, 1953), and has been widely used in many disciplines (Jepperson, 1991). Jepperson (1991) notes, that the different definitions of institution include institutions as procedures (rules of wider society) that are organized and established; institutions as a wider group that are important and particularly large (e.g. associations); and institutions as “cultural” effects or historical ones (p. 143). What makes this concept similar in the different definitions is the idea of “authoritative rules or binding organizations” (Jepperson, 1991, p. 143).

March and Olsen (2005) add that these elements (translated into rules and practices) are relatively enduring, invariant, and resistant to change (Jepperson, 1991), and are transmitted across generations (Berger and Luckmann, 1967), meaning that they subsist over time regardless of individual actors (Zucker, 1987; Powell, 1991).

In a similar vein, but narrowing the scope, Barley and Tolbert (1997) define institutions as shared rules that identify a specific category of social actors and a specific set of activities and relationships (p. 96). This definition is in line with Berger and Luckmann’s (1967) observation that shared rules and practices that have become real (externalized and objectified) can be transmitted across generations, and instilled particularly in specific contexts and in specific set of relationships (Jepperson, 1991). Another important characteristic is that after several steps institutions obtain a taken-for-granted status when internalization has been achieved (Berger and Luckmann, 1967; Tolbert and Zucker, 1996), and therefore they become constraints on actor’s behavior (Jepperson, 1991; Zucker, 1977). In summary, an “institution represents a social order that has attained a certain property” (Jepperson, 1991, p. 145).

In summary, institutions are composed of structures and meanings that give sense to social life, because the structures support activities, provide resources and encompass rules, beliefs and other elements.
4. Institutional Theory

Which Institution?

Institutions are formed at different levels of society, from industry and/or nation (DiMaggio and Powell, 1991), to organizational field level, as is the case of the family business field, where a group of organizations are interested in similar topics (Hoffman, 1999), share similar values, and interact more frequently than with others outside their field (Scott, 2001).

In the case of family businesses there are different institutions that may play an important role in how governance structures are set and further institutionalized. This is because these institutions represent a source of institutional pressures that guides behavior and decision making patterns within sometimes competing sets of values and interests (Scott, 1987).

On the one hand family businesses are exposed to two overlapping social institutions, the family and the business, that are influential in decision-making and in setting structures (Lansberg, 1983; Gimeno, 2004; Gimeno et al., 2010). Most researchers highlight the family institution as a distinctive feature of family businesses, influencing decision-making, process, practices and structures (Aldrich and Cliff, 2003; Sharma, 2004). Quoting Lansberg (1983) family and business can be considered two distinct institutions because:

“Each institution defines social relations in terms of a unique set of values, norms, and principles. … Each [institution] exists in society for fundamentally different reasons. The family’s primary social function, on the one hand, is to assure the care and nurturance of its members. Thus social relations in the family are structured to satisfy family members’ various developmental needs. The fundamental raison d’etre of the business, on the other hand, is the generation of goods and services through organized task behavior. As a result, social relations in the firm are, on the whole, guided by norms and principles that facilitate the productive process” (p. 40).

On the other hand, the increasing institutionalization of the family business leads to it becoming an organizational field. In their article about the dynamics of institutionalization of family firms, Melin and Nordqvist (2007), highlight the increasing interest of research in family businesses, the creation of professional associations (e.g. Family Business Network (FBN), National Chapters of FBN (e.g. Instituto de la Empresa Familiar (IEF) Spain, the appearance of specialized consultants, and an increasing discourse around the particularities of these form of organization.

The organizational field purports other sets of institutions; for instance, Jepperson (1991) notes that associations are institutions. Following Jepperson’s idea, Greenwood, Suddaby and Hinings (2002), and Parada et al. (2010) show the role that professional associations play in the adoption and change of (governance) practices as they exert different pressures (e.g. normative and/or mimetic). In that sense, it can be argued that professional associations are institutions, and especially that they are sources of institutional pressures.
Finally, the development of governance structures can be seen as a process of translation and legitimation (e.g. Greenwood and Hinings, 1996; Meyer and Rowan, 1977; Ocasio, 1999), that leads to internalization (Berger and Luckmann, 1967; Tolbert and Zucker, 1996; Kostova and Roth, 2002) or “full institutionalization”. Many studies consider the board of directors or the family council an institution, because they are widely prescribed, taken-for-granted, and they purport rules and beliefs that influence behavior (e.g. Ocasio, 1999).

In this dissertation, my focus on institutions occurs at various levels and with different perspectives. On the one hand, I focus on the role played by professional associations in the development of governance structures. On the other hand, I focus on specific governance structures such as the board of directors, the family council, the executive committee and the constitution, shedding light on how these institutions institutionalize over time in the family business.

4.3.2. Institutionalization

Jepperson (1991) notes that institutionalization denotes the process of attaining a certain state or property (p. 145). Institutionalization thus, is defined as a process that occurs over time (Scott, 2008; Zucker, 1977, where practices, structures, “social processes, obligations, or actualities come to take on a rule-like status in social thought and action” (Meyer and Rowan, 1977, p. 341). They are widely followed, without debate, and exhibit permanence (Tolbert and Zucker, 1983, p. 25), and therefore changing them seems unthinkable (Tolbert and Zucker, 1983, p.5). Berger and Luckmann (1967) define institutionalization as the process where “there is a reciprocal typification of habituated actions by types of actors. Habitualization means that actions are repeated frequently over time and they become a pattern that can be reproduced with less effort. These habits become taken for granted even though they maintain their meaning to the individual, embedded as routines in the stock of knowledge individuals possess (Berger and Luckmann, 1967, p. 71).

According to Selznick (1957), the institutionalization process of organizations occurs in two steps. First organizations create a formal structure to deal with coordination and economic issues. In that sense, and in line with many agency theorists and economists governance mechanisms are created, such as explicit goals, and rules (e.g. constitutions, value, mission statements, codes of conduct), control and coordination mechanisms (e.g. governance bodies) and communication channels. The second step is “thick” institutionalization (Selznick, 1957) seen as a cumulative process over time, where the organization accumulates complex behavioral patterns and is therefore defined by its capabilities and competencies acquired over time (as described by Scott, 2008, p. 124). This means there are different ways to attain thick institutionalization, from a hardening of rules and procedures, or by creating symbols, rituals, and ideologies, to intensifying commitment (Selznick, 1957, p. 235).
These authors define three phases in institutionalization: externalization, objectification and internalization. Tolbert and Zucker (1996) inspired by Berger and Luckmann's work, present a model that shows how institutional processes occur. They suggest that market, political and technological changes will influence innovation, so that in turn the most accepted innovations become habituated. This habitualization will represent an area of theorization (why and how the innovation is effective) when interaction between and within organizations occur. This process leads to objectification, when there is consensus on the value of the practice or structure and finally there is a shift from more mimetic towards a more normative and coercive status of the innovation which leads to sedimentation. Based on Tolbert and Zucker (1996), Kostova and Roth (2002) find that in multinational corporations there are two stages of the institutionalization process; implementation (as external and objective behaviors), and internalization (when the practice becomes valuable and individuals become committed to the practice).

It is important to note that, as mentioned previously, institutions and therefore institutionalization has to do with the context in which they are embedded (e.g. Zilber, 2006). This seems to be particularly relevant in the adoption of structures and practices across national borders (e.g. Boxenbaum, 2006; Mazza, Sahlin-Andersson and Pedersen, 2005; Meyer and Hammerschmid, 2006). Zilber (2008) highlights the importance of exploring the particularities and the context, at various levels, both organizational and interorganizational. This dissertation works towards addressing this call by taking into consideration the particular context of developing governance structures in family firms and, bridging different levels of analysis, which displays meaningful particularities.

**Degree of Institutionalization**

Institutionalization can be seen as a dynamic on-going process (DiMaggio, 1988), as meanings may change from field to field and over time (Zilber, 2008), due to the interaction of multiple actors. This has been shown in various studies (e.g. Edelman, Uggen and Erlanger, 1999).

Tolbert and Zucker (1996) assert that the degree of institutionalization of an organization is given by the ability of its structure to determine the behavior of their members. In similar vein, Jepperson (1991) suggests that institutionalization can be achieved through formal organization (structures), and informal organization (regimes and cultures), therefore institutionalization is endowed through the cumulative process of constructing shared norms, routines and values that will encompass programs, policies and procedures for the way the organization does the job (Giddens, 1984).

But is it possible to measure the degree of institutionalization? Compared to what? This seems a complex issue; but some studies have attempted this interesting yet difficult task. Some deal with the degree of institutionalization in terms of how organizations deal with the adoption of practices and pass from
ceremonial to substantive adoption (e.g. Tolbert and Zucker, 1996; Kostova and Roth, 2002). These studies suggest that institutionalization involves several stages before “full institutionalization” is achieved. While Tolbert and Zucker describe it as a multistage model of institutional processes, Kostova and Roth (2002) identify four groups, or patterns of adoption, that reflect different degrees of adoption. They label them “active, minimal, assent, and ceremonial adoption” (p. 229).

For the purpose of this study, institutionalization is defined as the process by which governance structures are developed over time achieving “full institutionalization” as they become internalized (perceived as useful and people are committed) (Kostova and Roth, 2002), and there is psychological gain enjoyed by all parties involved in the process (Berger and Luckmann, 1966, p. 74).

The positive perceptions about the value of the practice reflected in internalization are important because of their "action-generating" properties, which facilitate not only the initial adoption of the practice but also its persistence and stability over time (Tolbert and Zucker, 1996: 177). For Kostova and Roth (2002), therefore, implementation and internalization reflect the overall level, or "depth," of adoption of the practice. The approach that Tolbert and Zucker (1996) use for the stages of institutionalization, refers to the wide diffusion of structures and practices. More in line with Kostova and Roth (2002), this dissertation goes beyond widespread diffusion and focuses on how each institutionalized structure (e.g. board of directors) is developed within a specific organization. This is because this study adopts a process perspective where structures are seen as elements that evolve over time, and that to achieve taken-for-granted status there is sometimes a long way to go.

4.3.3. **Decoupling Structures from Practices: Ceremonial Adoption**

Institutional theory argues that when organizations confront with conflicting demands that result from legitimacy and efficiency seeking -when rationalized myths are not in line with what the organization sees as an efficient solution (BoxemBaum and Jonsson, 2008) - they tend to decouple structure from practice to solve this problem (Meyer and Rowan, 1977).

Decoupling means that organizations adopt structures ceremonially to comply with institutional pressures, while continue to do things in a way they consider effective (Boxembaum and Jonsson, 2008). This helps to maintain face (Goffmann 1967) towards external stakeholders, and avoids inspection and evaluation by internal and external constituents (Meyer and Rowan, 1977, p. 359). This means that they comply with, but do not conform to institutional pressures (Oliver, 1991; Elsbach and Sutton, 1992).
4. Institutional Theory

For Meyer and Rowan (1977) decoupling means disconnecting structure from practice, as the practice is “determined by perceived efficiency concerns and structure results from institutional pressure for conformity” (Boxembaum and Jonsson, p. 81). In a similar vein, Scott (1998) suggests that decoupling reflects “the overriding [imperative] of all systems… to maintain the integrity and continuity of the system itself…” (Scott, 1998, p. 117, as cited in Zajac and Westphal, 2004). This means that legitimacy is achieved in some cases by means of symbolically adopting certain prescribed structures, without changing the internal dynamics and power relations.

The pioneers of studying decoupling and ceremonial adoption were Meyer and Rowan (1977) who found in their qualitative study about educational institutions that these entities formally adopted standards and procedures that were demanded by the government and their communities, but continued with their former practices and routines. In a later qualitative study Edelman et al. (1991) found similar results from a liberal arts college that formally adopted official policies, but, worked in their own way in terms of hiring and promotion processes.

Kostova and Roth (2002) studied the implementation and institutionalization of practices in subsidiaries of multinational corporations. They argue that:

“The adoption response is comprised of a behavioral and an attitudinal component—the actual implementation of the practice and the internalized belief in the value of the practice—and that the variation in adoption response is reflected in different levels and configurations of these two components” (p. 216).

Fiss and Zajac (2004) study decoupling processes in Germany, by focusing on the preferences of powerful owners and the diversity of preferences among powerful managers and how these preferences affect the diffusion of a shareholder value orientation. Their findings show the symbolic management of stakeholders (Westphal and Zajac, 1994, 2001; Zajac and Westphal, 2004), by using “language and appearance to symbolize their level of identification with a particular governance regime” (Fiss and Zajac, 2004, p. 502).

Westphal and Zajac (2001) question the fact that previous studies, while showing valuable insights about decoupling, did not address variation and/or when decoupling takes place. In 1994 these authors conducted research to study the adoption of long-term incentive plans where they observed that a public announcement of adoption was frequently decoupled from actual implementation. They also found that organizations that have powerful CEOs and/or have performed poorly tend to decouple more frequently the incentive plans.

In a second study (Westphal and Zajac, 2001), taking a different context, that of stock repurchase programs, focus on the variation in responses to institutional pressures. Their findings corroborate their previous study, where the top management team is powerful enough, in this case, to influence the board and
not allow institutional pressures to current practices and structures. They also found that experience and social structure creates awareness in powerful actors of the possibility to decouple structure from actual practices.

These previous studies usually focus on practices or on a specific governance mechanism (the board of directors) without addressing the fact that governance mechanisms are strongly connected and particularly in family businesses where the functionality of one enhances that of the other (Gimeno et al., 2006b, Gimeno et al. 2010).

4.3.4. Defining Legitimacy

Legitimacy is a key concept in institutional theory (DiMaggio and Powell, 1983; Meyer and Rowan, 1997; Zucker, 1977) that first appeared in the writings of Weber (1978) where he states that legitimacy emerges from conformity with both general social norms and formal laws. Institutional theorists suggest that mimetic behavior results in conformity, this is, adopting for instance prescribed governance structures or practices that secure legitimacy and hence provide valuable resources (Ashforth and Gibbs 1990, Deephouse and Suchman 2008, Fiss and Zajac, 2004; Thornton and Ocasio, 2008).

Defined as “the acceptance of the organization by its environment” (Kostova and Zaheer, 1999), legitimacy can be achieved when an organization’s values, beliefs and norms are aligned with those of the larger societal context in which they are embedded (Czarniawska-Joerges, 1989; Parsons, 1956; Dowling and Pfeffer, 1975; Pfeffer and Salancik, 1978; Suchman, 1995). In the words of Scott (1995), “legitimacy is a condition reflecting cultural alignment, normative support, or consonance with relevant rules or laws” (p. 45).

Legitimacy represents a critical element for the success and consequently the survival of the organization (Meyer and Rowan, 1977), as it assures access to vital resources (Elsbach, 1994; Pfeffer and Salancik, 1978). The concept of legitimacy assumes that the actions of an organization or any other entity are “desirable, proper, or appropriate within a socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995, p. 574). These shared norms, values, beliefs and definitions legitimate the organizations within a specific organizational field (Parsons, 1953). Child (1972) claims that companies that are legitimated have more freedom to choose their structures.

Suchman (2005) presents two different types of legitimacy, introducing the concept of ceremonial adoption versus substantive adoption. He divides the literature into (1) strategic, which basically manipulate and deploy symbols to gain societal support; and (2) institutional, which stresses the pressures exercised by macro institutions. These views are seen as irreconcilable.

DiMaggio and Powell (1983) assert that organizations tend to become similar to each other in their quest to gain legitimacy, as they are pressured by three forces, normative, coercive and mimetic. In line with DiMaggio and Powell
4. Institutional Theory

(1983), Scott (2008) suggests that legitimacy is the glue that keeps institutions alive and will therefore be a key concept in those forces that legitimize organizations in their environment.

This study does not focus on legitimacy as the dependent variable, but in line with DiMaggio and Powell (1983) it assumes that legitimacy seeking will lead to the adoption of specific governance structures given the institutional pressures that may convey them to follow a specific pattern for adopting certain structures. This study concentrates on the interplay between legitimacy and efficiency needs that are reconciled, in line with Kennedy and Fiss (2009) proposal.

4.3.5. The Need for Reconciling Adoption Motivations

A stream of literature on this theory has focused on the adoption and institutionalization of practices and structures where two main sources are studied, legitimacy reasons, and efficiency reasons (e.g. Ansari, Fiss and Zajac; 2010; Hinings and Tolbert, 2008; Kennedy and Fiss, 2009; Tolbert and Zucker, 1983).

An important debate has been generated around this topic, since earlier studies tended to view reasons of legitimacy and efficiency as irreconcilable (Kennedy and Fiss, 2009). Whereas institutional theorists view conformity to institutional pressures as a way to gain legitimacy and achieve valuable resources (e.g. Ashforth and Gibbs 1990; Deephouse and Suchman, 2008; Fiss and Zajac, 2004; Thornton and Ocasio 2008), strategy theorists see this behavior as limiting the capacity to generate competitive advantage given the similarity in practices and structures (e.g. Chen and Hambrick, 1995; Porter 1996; Teece et al., 1997; Wernerfelt, 1984), hence advocating for efficiency reasons instead of legitimacy reasons to adopt structures and practices.

Tolbert and Zucker (1983) suggest that both, efficiency and legitimacy issues have important implications for the processes underlying diffusion and adoption. Their work is probably the most important in reconciling both within institutional theory and studying them in the same empirical research. Tolbert and Zucker (1983) studied the institutionalization of change in formal organization structures in civil service reforms, as experienced by cities. The authors argue that efficiency and legitimacy issues lead to institutionalization. They assert that “the different processes of change are not incompatible and their mutual influences can be seen over the course of civil service reform” (p. 25). Tolbert and Zucker found that early adoption was related to internal requirements, while late adoption, as the reforms where widely spread, was related to legitimacy seeking, because cities faced disapproval and/or sanctions for not adopting them.

Corroborating Tolbert and Zucker’s (1983) findings, Westphal, Gulati, and Shortell (1997) studied the implementation of total quality management practices in a U.S. hospital, finding that early adopters were driven by efficiency seeking.
Again late adopters tended to implement practices for legitimacy reasons, as they
became more and more institutionalized. This model presents two stages and has
been widely used in practice diffusion studies (e.g., Baron, Dobbin, and Jennings,
1986; Westphal and Zajac, 1994).

The two-stage model that segregated adopters into early and late, and depicted
late adopters as passive actors, while useful to break the irreconcilability
between efficiency and legitimacy seeking, has been criticized for its limiting
conceptualization (e.g. Strang and Macy, 2001). More recently, scholars in
institutional theory have focused on the concept of logic to emphasize that
efficiency seeking is institutionally embedded (e.g. Lounsbury, 2002; Thornton,
2004). The concept of multiple, competing logics has gained ground, in helping
to understand “how multiple forms of rationality underlie change in
organizational fields” (Lounsbury 2007, p. 289).

In line with what has been said previously, Kennedy and Fiss (2009)
emphasize that, different motivations (efficiency and legitimacy) may coexist.
How they coexist may vary in different contexts. What is relevant about these
studies is their focus on early and late adopters. Evidently the need to reconcile
efficiency and legitimacy needs is strongly recommended and helps to better
understand why organizations adopt structures.

Similarly, proponents in corporate governance and particularly in the family
business field, emphasize the need to create structures that are appropriate to a
specific context and situation (internal and external circumstances) (e.g. Corbetta
and Salvato, 2004; Gedajlovic, Lubatkin and Schulze, 2004; Gimeno et al., 2010;
Neubauer and Lank, 1998). This is why this study reconciles both approaches.
Contrary to the previous studies, however, this dissertation centers its attention
on how reasons of efficiency and legitimacy influence the degree of development
of governance structures in family firms. This means that motivations for
developing governance structures are regressed together with governance
structures and do not focus on either early or late adopters. Finally, what seems
evident is the fact that legitimacy and efficiency reasons go hand in hand, when,
for instance, professional associations, consultants, and/or academics advocate
efficiency reasons for development of governance structures.

4.3.6. **Institutional Work**

Lawrence, Suddaby and Leca (2011) argue that institutional theory has been a
dominant orientation to explain macro-phenomena losing on its way the “lived
experience of organizational actors, especially the connection between this lived
experience and the institutions that structure and are structured by it” (p. 52).
Institutional theory attributed actors mere passive behavior in the adoption of
prescribed structures due to their conformity to institutional pressures (e.g.
DiMaggio and Powell, 1983), depicting them as unreflective.
4. Institutional Theory

This is why institutional entrepreneurship was coined to describe actors as very active and “rebellious” behavior to instantiate change of highly institutionalized structures and practices (e.g. Greenwood and Suddaby, 2006). Institutional entrepreneurship has been used to “incorporate the role of interests and active agency” (Battilana, 2006, p. 654). In that sense, DiMaggio (1988) defines institutional entrepreneurs as actors with particular interests in terms of institutional arrangements. Very influential actors, called “cultural dopes” or “heroic agents” conduct successful institutional changes (e.g. creating new structures, practices, regimes) (Powell and Colyvas, 2008). Greenwood and Suddaby (2006) for instance, show how the big 5 consulting companies have changed the very mature field of accounting - something very difficult to achieve in such a context. Other studies show how social transformations lead to the appearance of new logics (e.g. Suddaby and Greenwood, 2005).

Institutional work has appeared as an alternative approach by which to consider those actors that instantiate change in day-to day ordinary life. Drawing inspiration from practice-based perspectives it deals with the recursive interaction between macro-institutional processes and the lived experiences and everyday practices of organizational actors (Lawrence, Suddaby, and Leca, 2009; Thornton, Ocasio, and Lounsbury, 2012). DiMaggio and Powell (1991) suggested that organizations do not merely copy and replicate structures and practices, rather, organizations tend to act purposefully, which involves, energy, effort, and reflection (Lawrence, Suddaby and Leca, 2009, 2011). Any decision and activity will thus require reasoning and reflection in order to negotiate rules and procedures (Garfinkel, 1967). Institutions are sustained, changed and even disappear depending on the interpretation and enactment of the individuals within such institutionalized structures, as they give them particular meaning (Weick, 1979).

Institutional work is thus defined as the “purposive action of individuals and organizations aimed at creating, maintaining and disrupting institutions” (Lawrence, Suddaby and Leca, 2009, p. 1). Even though institutional work focuses on individual actors, this does not mean that it is disconnected from traditional institutional theory. In fact, institutional work relies on the assumption that behaviors are embedded within institutional structures and that agency produces change (Lawrence et al., 2011). The key assumption of embedded agency suggests that particular contexts lead to the appearance of interested actors (Hwang and Colyvas, 2011). From a micro perspective, actors can be either organizations or individuals. Agency is depicted differently. Institutional work sees agency as the day to day efforts and intentionality of actors that lead to institutional change.

Change can be conservative or radical, influenced by strategic choices or emotions and may even fail (Lawrence et al., 2011). Intentionality is seen as something that can take different levels, (1) a future-oriented action consciously and strategically made to produce change, what Emirbayer and Mische (1998) call “projective agency”; (2) “practical intentionality”, dealing with present issues
that need to be managed; and, the most common type according to Lawrence et al. (2011) (3) a habit eliciting, opting for, and implementing “more or less tacit and taken-for-granted schemas of action” (Emirbayer and Mische, 1998, p. 975 as cited in Lawrence et al., 2011). Similarly, effort plays an important role in institutional work as it implies physical and mental effort to achieve goals related to affecting an institution or set of institutions (Lawrence et al., 2011).

Some researchers depict agency as a reaction to institutional pressures in processes of adoption and ceremonial display (Lawrence, Suddaby and Lea, 2009). Tolbert and Zucker (1996) suggest that symbolic adoption appears if there is a degree of consensus among members about the value of a practice (p.182). They can therefore respond strategically in different ways to institutional pressures, (Ingram and Clay, 2000).

The work of Oliver (1991) has been a milestone in understanding how organizations decide to respond to institutional pressures in different circumstances. Her conceptual paper proposing five strategic responses which organizations may adopt towards institutional pressures, led to various empirical studies. Oliver (1991) suggests that organizations may follow institutional pressures by habit, by mimicking others, or, by complying (obeying rules and accepting norms). When any of these responses are enacted the strategy is (1) acquiescence, basically conformity to institutional pressures. The next two strategies purport ceremonial adoption. When organizations are faced with conflicting institutional demands or conflict between efficiency and legitimacy seeking, organizations may decide to balance the expectations of multiple stakeholders, pacify by accommodating institutional elements, or bargain with external stakeholders. This strategy is called (2) compromise, and may lead to decoupling (Scott, 2001, as cited by BoxemBaum and Jonsson, 2008).

The third strategy, which can also lead to ceremonial adoption is (3) avoidance, achieved through concealing (masking nonconformity by adopting certain structures, practices to hide the fact they do not intend to implement them. Buffering means to safeguard and reduce external inspections, scrutiny and evaluation, by partially decoupling their activities from external sources. Escaping is a more extreme strategy used by organizations as a way to free themselves from institutional pressures moving location for instance, or changing goals. The last two strategies can be linked to institutional entrepreneurship, as they may lead to the creation of new logics, or new institutions. (4) Defiance is a way to resist institutional pressures in a more active way.

Organizations use dismissal strategies (ignoring the rule); challenge, when they can prove rationally that institutionalized elements do not work or are inappropriate; and attack which is more aggressive and intense, “vehemently

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Agency is defined as the capacity of individuals to act independently and to make their own free choices.
denouncing institutionalized values…” (Oliver 1991, p.157). Finally (5) manipulation is the most active response to institutional pressures where organizations may import influential constituents (co-opt), influencing influence by shaping values and criteria, or controlling by dominating the processes and the institutional constituents (Oliver, 1991, p.152).

These previous studies depict the agentic character of organizations and individuals in driving institutional change in one way or another. Selekler-Goksen and Öktem (2009) in the family business field, rely on Oliver (1991) to investigate institutional pressures from national and international environments in Turkey to improve corporate governance. These authors concentrate on the composition of board of directors and find that family businesses tend to resist institutional pressures by using avoidance, defiance, and manipulation strategies. In other words they either adopt structures ceremonially or become institutional entrepreneurs, changing the rules of the game.

Similarly, using a path-dependency approach, the study of Carney and Gedajlovic (2003) on East Asian family business groups depicts how organizations are embedded within a larger institutional environment purporting specific structures and practices that may not fit with an organization’s historical way of doing things. In this particular case, the authors suggest that Asian family business groups adopt structures that are somehow imposed by their environment, but constrain the capacity to innovate. This article therefore depicts family businesses as passive, rather than active in adopting or changing structures in accordance to their current needs.

These former studies deal with the family business as the unit of analysis, not really specifying who drives change and how this individual does it. Recent studies center their efforts on individuals, champions who drive change within their organizations and do institutional work. For instance, Parada et al. (2010), studying the role of professional associations in changing governance practices in family businesses found that individual actors drove change following three steps. These actors were named institutional champions.

In summary, institutional work provides with a broader vision of agency in relationship to institutions, by seeing actors as agents of change that make effort and act intentionally. This framework appropriately depicts family members’ day-to-day efforts in driving institutional changes within their family businesses and connected to their macro environments.

4.4. Conclusion

As mentioned in previous sections of the dissertation, a key theme in management and organization theory is the issue of why and how organizations adopt structures and practices (e.g. Abrahamson, 1991; Davis and Greve, 1997; Palmer, Jennings, and Zhou, 1993; Westphal, Gulati, and Shortell, 1997).
Institutional theory has been an important framework by which to understand why this happens, with the premise that organizations are socially embedded in institutional contexts and their behavior is constrained by these institutions. Organizations are therefore strikingly similar, because they imitate each other as a result of institutional pressures (DiMaggio and Powell, 1983).

The literature review emphasizes that institutional theory is an interesting framework for understanding corporate governance issues (Fiss, 2008), as companies look for compliance with norms through decision making processes and through the structure of the firm (Nwabueze and Mileski, 2008). The same may happen in family businesses, as they look for compliance with societal norms in search of legitimacy (Powell and DiMaggio, 1983) and resources, thus developing governance structures.

It is also clear that few studies have combined reasons for legitimacy and efficiency in a single study to show how these two issues influence the development of governance structures, which seems to broaden the scope for a better understanding for such processes, as Kennedy and Fiss (2009) suggest.

Institutional theory has been strongly criticized for not paying attention to the process of institutionalization in its different dimensions (to what extent structures, practices- “elements of the social order” (Colyvas and Powell, 2006, p. 306) are pre, semi or fully institutionalized (Tolbert and Zucker, 1996; Strang and Sine, 2002). Not many studies have analyzed this process in-depth. An exception can be found in Colyvas and Powell’s (2006) study focused on the commercialization of science. Their interesting findings point to the processual aspect of institutionalization and the inevitable change of elements through time.

The role of interested actors in driving change through their day-to-day efforts is still a promising area of research (Hwang and Colyvas, 2011) to understand how institutions are created, maintained and disrupted (Lawrence et. al., 2009).

This dissertation thus relies on institutional theory as the main framework to understand how and why governance structures are developed. This process is thoroughly explained, first from a general perspective in the quantitative analysis complemented by the qualitative analysis showing the nuances and in-depth detail.
5. Developing Governance Structures: Hypothesis Development

5.1. Introduction

This section further develops the theoretical framework mainly on institutional theory and family and business contingent factors to explain what leads to the development of specific governance structures. As previously explained, research suggests that the adoption of governance structures is linked to reasons of legitimacy and efficiency (Kennedy and Fiss, 2009; Tolbert and Zucker, 1987; Westphal, Gulati and Shortell, 1997). The literature on family businesses explains the compliance of family businesses with institutional pressures in order to gain legitimacy among other stakeholders (Melin and Nordqvist, 2007). Family businesses, however, are also aware of the need to efficiently manage contingent factors from both systems the family and the business (Lansberg, 1983; Neubauer and Lank, 1989). Despite previous research on the topic, there are still gaps in our understanding about why and how family businesses develop governance structures (Gersick and Feliu, 2014).

This chapter develops hypotheses (see Figure 2) derived from the literature to answer the research question. In later chapters the whole picture is completed with a qualitative approach opening the black box of such process.

![Figure 2. Motivations for Developing Governance Structures in Family Business](image_url)
5.2. Finding a Sequence in the Development of Governance Structures

Family businesses are becoming an organizational field (Sharma, et al., 2014) where an increasing group of consultants, researchers, practitioners, associations (e.g. the Family Firm Institute, Family Business Network), and a vast literature (books, journals) have created a general discourse around this particular category of organizations (Melin and Nordqvist, 2007). As such, this group of organizations is becoming more exposed to institutional pressures from diverse institutions in relation to the adoption of structures and practices.

At a macro-level, family businesses are exposed to the state as a supra institution (Scott, 2008) that dictates laws, regulations and codes of good practice governance (e.g. the Cadbury Report) for accountability and professionalization. At an inter-organizational level, family businesses receive the advice of consultants and professional associations who (DiMaggio, 1988) prescribe the best practices and specific values that are in line with what a family business should be (Parada et al., 2010). At an organizational level family businesses are exposed to specific logics derived from the family and the business institution (Gersick, et al., 1997; Lansberg, 1983).

In their quest to appear legitimate family businesses adopt governance structures and practices that are widely prescribed (e.g. Melin and Nordqvist, 2007; Nordqvist and Melin, 2002; Parada et al., 2010). On the one hand, these organizations tend to adopt business governance structures to support decision making and to look like quoted companies in order to dilute stigma in the eyes of the critics who claim that family businesses are poorly professionalized (e.g. Chandler, 1962). On the other hand, the family business field prescribes specific family governance mechanisms to cope with family complexity (Gersick and Feliu, 2014).

The embeddedness within two different systems, the family and business, portrays different time measurements. Literature suggests that it is difficult to understand what happens in a family business if we do not consider the temporal dimension (e.g. De Massis; Chirico, Kotlar, and Naldi, 2014).

Family businesses are defined for the existence of successive generations and the willingness and desire to retain them as family businesses. Businesses are measured in terms of ages, where lifecycles play a relevant role. Lifecycles in business are related to start-up, growth, and maturity, and this means an urgent need in terms of business governance. In fact, life cycles are shorter than those of the family. In parallel, family businesses follow a completely different time frame that is based on generations, which involve a lag between generations of around 25-30 years. Having more generations does not necessarily mean higher complexity, because other factors influence this complexity (for instance having many descendants versus one descendant). Researchers and academics tend to
5. Developing Governance Structures: Hypothesis Development

prescribe family councils as a useful tool for the family and the firm (Gray, 2007), especially for more complex generational stages (e.g. sibling partnership, or cousin consortiums, and beyond) (Lansberg, 2007; Moore and Juenemann, 2008).

This means that the inclusion of a family council may arise after perhaps 20-30 years of business existence. An adequate development of the governance structure may diminish the effects of increasing family and ownership complexity (Jaffe and Lane, 2004). Family governance is adopted when a family moves from the founder stage to a sibling partnership and is even more necessary when they move beyond, to a cousin consortium (Gersick et al., 1997; Lansberg, 1999; Steier, 2001).

The set of rules is a tool that most scholars agree is useful when there is the need to formalize the role of the family in the business as they move beyond the founder stage and more complex relationships between family members and with the business appear (Aronoff and Ward, 1996; Montemerlo, 2005; Vilaseca, 2002). The professional literature also advocates the benefits of having family councils and clear sets of rules in later stages of the family business cycle (Lansberg, 2007; Moore and Juenemann, 2008).

It can thus be inferred from the diverse literature on the topic that family businesses may follow a specific sequence in the adoption of governance structures (e.g. Aronoff and Ward, 1996; Gersick et al., 1997; Gimeno et al., 2010; Neubauer and Lank, 1998; Nordqvist et al., 2014). The time lag between the two systems suggests that family businesses may first introduce business governance mechanisms and later family governance ones.

Therefore:

Hdp11: Family firms will follow a specific sequence when adopting governance structures that moves from business governance to family governance mechanisms.

5.3. Legitimacy Seeking

The development of governance structures and practices has been widely attributed to conformity to institutional pressures (e.g. Chizema and Kim, 2010; Li and Harrison, 2008; Judge, Douglas and Kutan, 2008; Ocasio, 1999; Sanders and Tuschke, 2007; Venkatraman, Loh, and Koh, 1994) as a way to achieve legitimacy and thus grant access to resources. Chizema and Kim, (2010) for instance, study the antecedents of higher proportions of outside directors in

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11 Hdp means: Hypothesis dependent variable.
boards in Korea. The authors suggest that institutional pressures that come from the U.S influence the adoption of governance practices, because the government (coercive forces) exerts pressure on large organizations to adopt such measures.

Several studies dealing particularly with adoption, levels of implementation or change, suggest that institutional pressures are exerted by institutions within an institutional field that purport a specific logic with similar values, beliefs, cultures (e.g. DiMaggio, 1988; Greenwood et al., 2002) and driving behavior. In fact, these institutions with a specific logic, provide meaning and stability by drawing on social expectations, rules, and prescriptions (normative, mimetic and normative forces) (Scott, 2001), and thus they shape, influence and constrain behavior. Organizations are thus embedded in multiple institutional spheres subject to sometimes differing logics (Kraatz and Block, 2008).

There are different sources of legitimacy or triggers that lead to the adoption of specific structures. According to Ruef and Scott (1998) any audience (internal or external) that makes legitimacy assessments can be a source of legitimacy and thus influence organizations in the adoption of certain structures, processes or practices. In similar vein, Meyer and Scott (1983) suggest that the state as a supra organism is a source of legitimacy, and any collective group that has authority and can claim what is acceptable as a behavior, for instance lawyers, accountants or intellectuals, plays a critical role.

In their qualitative study on governance and strategic choices in family firms Nordqvist and Melin (2002) use an institutional theory lens to interpret why some family firms adopt radical change and others do not, despite being exposed to the same institutional pressures. These authors also highlight that family (e.g. values, beliefs) and business institutions (e.g. economic goals like growth) seem to play an important role in adopting and institutionalizing governance structures and processes. Parada et al. (2010) found that voluntary professional associations play an important role in the change of values in family businesses.

From the theory above, it can be assumed that professional associations, the family and the business are important sources of institutional pressures, which lead to the development of governance structures. Next, I will draw the hypothesis on legitimacy seeking based on the arguments above.

5.3.1. Professional Associations
Organizations in search of legitimacy tend to adopt structures that are prescribed by consultants, professional associations and other institutions that are usually related to their field (DiMaggio and Powell, 1983). These institutional pressures exerted by specific institutions, guide behavior and influence decision-making. Professional associations are described, thus as important regulatory mechanisms that exert particularly normative pressures (DiMaggio and Powell, 1983; Ruef and Scott, 1998). Greenwood Suddaby and Hinings (2002) highlight the role of professional associations as vehicles for driving and legitimating change. In a
5. Developing Governance Structures: Hypothesis Development

similar vein, Smith, Haniffa, and Fairbrass (2011) acknowledge in their conceptual framework on corporate sustainability reporting assurance the major influence of professional associations in exerting normative pressures and thus mobilizing opinion and influencing the behavior and action of participants.

Diverse institutions play a key role in the adoption and further institutionalization of governance structures in family firms (Melin and Nordqvist, 2007). In line with Greenwood et al. (2002), Parada et al. (2010) suggest that voluntary professional associations exert normative and mimetic forces that lead family businesses to adopt and change governance practices. Melin and Nordqvist (2007), in their article about the institutionalization of the family businesses field, also stress the power of professional associations and groups alike in the adoption of governance structures. Research confirms that professional associations are the drivers of institutional pressures that influence the adoption of governance structures. It can be argued that professional associations exert institutional pressures that affect the adoption, and in this particular case the development, of governance structures in family businesses. Thus,

Hypothesis 1. Belonging to professional associations is positively related to the development of governance structures in family firms.

5.3.2. Family and Business Institutions

In previous sections we showed that the family and the business are two overlapping institutions that purport specific values, rules, and beliefs that influence decision making and behavior (e.g. Gersick et al., 1997; Gimeno, 2004; Gimeno et al., 2010; Lansberg, 1983; Taguiri and Davis, 1992; Ward, 1987). Ward (2011) explains that “family values and family ownership vision tend to drive business strategy” (p. 26). In fact many studies of family firms highlight the family and business institutions as two major sources of influence in decision making and behavior (e.g. Lansberg, 1983), in terms of strategy, the adoption of structures and practices, and as sources of conflict. Studies that focus on this topic mainly compare the two, and show which orientation prevails, that of the family or that of the business (e.g. Gimeno et al., 2006; Ward 1988).

Family and business institutions are seen as opposites because they rely on contradictory values. This argument is in line with institutional theory accounts of institutional logics, where different institutions portray particular logics that may be opposing (Kraatz and Block, 2008). According to Schuman et al. (2010), family and business logics are a continuum where the left side is the family and the right side is business logic. I use the same approach in this dissertation. This study analyzes the extent to which these orientations affect the development of governance structures.
5.3.2.1. Family Institution

The family is a strong institution that has been highlighted in the family business literature as influencing the behavior and adoption of governance structures (e.g. Gersick et al., 1997; Lansberg, 1983). Gersick et al. (1997) note that families are the most persuasive social institutions, as they guide our behavior in such a way that defines our nature and nurtures us. In that sense, the family institution purports a specific logic based on a set of values, norms, and principles that revolve around taking care of family members, nurturing them, developing them (Steier, 2003), caring for them and socializing them. “Social relations in the family are structured to satisfy family members’ various developmental needs” (Lansberg, 1983, p. 40).

It can be said that family logics include the paradigms, mental models, culture, beliefs or values, that makes the family see their reality, and in turn their family business, in a specific way (Gimeno, et al., 2006), and thus influences their decision making and behaviors.

In their conceptual article, Gimeno et al., (2006) for instance, define a protective orientation that is in line with the idea of nurturing the family. This orientation sees the family business basically as something in the service of the family. The family business is a place for family members to find a job, “the quest for stability in the family service” (p. 156). These authors propose that the protective orientation will have a negative effect on the adoption of business and family management. This can be seen from management practices to the adoption of business (e.g. boards of directors and executive committees) and family (e.g. family council, family constitution) governance mechanisms. In summary it is more likely that business families with a high degree of family orientation logic will develop less their governance structures, because there is no need to separate ownership from management (e.g. a board of directors), or to create family institutions that in the end serve to provide a role and space to family members who are not managing the company but are part of it. Similarly, Steier (2003) suggests that trust as a governance mechanism, which is based on family values, close relationship, and blood ties, allows family businesses to avoid other more costly formal mechanisms.

This evidence suggests that:

Hypothesis 2a. Family oriented logic is negatively related to the development of governance structures.

5.3.2.2. Business Institution

On the other side of the continuum we find the business institution as a major influence in terms of values related to professionalization, separation between management and ownership, and performance in terms of growth. Lansberg (1983) defines business institution logic as focused on “the generation of goods and services through organized task behavior. As a result, social relations in the
firm are, on the whole, guided by norms and principles that facilitate the productive process” (p. 40). These values are linked to achieving survival and profit (Steier, 2003).

Under this logic, the business is seen as a “sacred institution that must be preserved at all costs” (Ward, 2011, p.30). Businesses therefore have clear growth objectives and a willingness to act, in line with venture orientation (Gimeno et al., 2006) and the business also looks to maximize performance, or what Gimeno et al. (2006) call ‘financial orientation’. Business logic then, tends to prioritize business and ownership separation and therefore the need to have different governance structures to deal with the different stakeholders and achieve goals. Thus:

Hypothesis 2b. Business oriented logic is positively related to the development of governance structures.

Figure 3. Institutional Triggers for Adopting Governance Structures

5.4. Efficiency Seeking: Contingent Factors

Contingent factors related to the family and the business systems are highlighted as important features when adopting governance structures. For instance Nordqvist, Sharma, and Chirico (2014) use a configuration approach to suggest that family businesses need an appropriate governance structure depending on their heterogeneous characteristics, as related to ownership and management involvement. This study focuses on the family aspects, as do others (e.g. Melin and Nordqvist 2007; Sharma and Nordqvist 2013). Kenyon-Rouvinez, Koeberle-Schmid, and Poza (2014) add the business dimension, arguing in their book about governance in family enterprises that the individual circumstances and challenges of a family business determine the way the family business governance is configured, also suggesting the role of the business system.
Following Mustakallio’s idea that “… in addition to management and supervision and control, family firms need to develop governance structures that promote cohesion and shared vision within the family and reduce harmful conflict” (Mustakallio et al., 2002 p. 205), this dissertation suggests that family firms develop their governance structures, not only for legitimacy seeking, but also in accordance with contingent factors related to their family and business complexity (Ward, 2008). These contingent factors add complexity to the family and to the business and need to be managed (Gersick, et al., 1997; Gimeno, 2004). According to Gimeno (2004) complexity can increase because of the age of the business, size of the business, level of diversification and internationalization, family involvement (generations overlapping, ownership concentration, dominant generation, shareholders not working in the business), family size, and value alignment between those shareholders working and those not working, which will in turn require the adoption of governance mechanisms to cope efficiently with these issues.

Similarly, Klein, Astrachan and Smyrnios (2005) measure family influence, grouping variables along three main axes: power (ownership concentration, presence in management), experience (dominant generation, overlapping generation in management and governance) and culture (values alignment, loyalty, among others). Le Breton-Miller and Miller (2009) also suggest the need to account for contingent factors and focus on ownership concentration (in family hands) and generational involvement. In similar vein, Corbetta and Salvato (2004) highlight contingent factors as the key element to consider in order defining the type of boards that family businesses need.

For the purpose of this study I use the operationalization of Gimeno (2004) whose variables overlap with other studies (e.g. ownership concentration, dominant generation and overlapping generations, and values alignment Klein et al. (2005) do not consider whether these variables add or reduce complexity in the family business or the effect on governance structures.

5.4.1. Family Contingent Factors

There are several factors that make the family business more complex in terms of family issues. Many studies draw on or are inspired by Gersick et al.’s (1997) developmental models of family life cycles to address the issue of how to manage the family sphere according to the level of complexity. Family complexity can be measured using several variables. It generally deals with issues related to the owning family (e.g. concentration of shares, generation in charge) and family involvement in management (e.g. shareholders working versus not working, alignment of values) (Gersick et al., 1997; Gimeno, 2004). This study uses the following four dimensions to measure it: 1) ownership concentration, 2) how many generations overlap, 3) whether there are shareholders not working in the company, and 4) the alignment of values between members working and not working in the company (see Figure 4 below).
5. Developing Governance Structures: Hypothesis Development

5.4.1.1. Ownership concentration

Ownership concentration is considered one of the main issues in most corporate governance studies, given the fact that it does break the assumption of agency theory regarding the need for separation of ownership and management to avoid opportunistic behavior. According to La Porta, López-de-Silanes and Schleifer (1999), concentrated ownership is a norm in many countries. Van Essen, van Oosterhout and Carney (2012) undertook a meta-analysis of boards and performance in Asian businesses. They found that ownership concentration is more common than dispersed ownership in Asia, as companies are usually owned and managed by founders and families (Claessens, Djankov, and Lang, 2000). Even in Anglo-Saxon countries such as the U.S., a large portion of companies are controlled by founding families (Villalonga and Amit, 2006, 2009).

The degree of ownership is one of the variables, along with family management, that is used as a way to measure family involvement in the firm (Chrisman et al., 2004). Family involvement is substantial “when a family owns all or a controlling portion of the business and plays an active role in setting strategy and in operating the business on a day-to-day basis” (Kelly et al., 2000, p. 27). This means that a concentration of ownership allows strong control over the firm (De Massis, Kotlar, Campopiano, et al., 2013; Le Breton-Miller, Miller, and Lester, 2011), by being actively involved in management or in governance positions (Le Breton-Miller et al., 2011).

Gersick et al. (1997) suggest that ownership dispersion appears over time when sibling partnerships and cousin consortiums inherit shares. An increasing number of family members involved can be a source of conflict because of diverse individual goals and incentives (Kotlar and De Massis, 2013). Contrary to these studies, Schulze et al. (2003) suggest that the degree of family ownership dispersion leading to typical agency problems might not be present in family businesses because familial relationships lead to a greater alignment of interests. This may be enhanced by high levels of trust (Steier, 2003).

While some researchers consider concentrated family ownership a cause for reduced agency costs (Carney, 2005; De Massis, Kotlar, Campopiano and Cassia, 2014; Fama and Jensen, 1983) leading to higher performance (Chrisman, et al., 2004), other studies expose the risk of parental altruism (Lubatkin, Ling, and Schulze 2007; Schulze, Lubatkin, Dino and Buchholtz, 2001). Morck and Yeung (2003) suggest that “beyond a certain level of family ownership, the efficacy of the decision control mechanisms decreases (Morck and Yeung, 2003)” (as cited in De Massis et al., 2013, p. 167). In line with the latter, De Massis et al. (2013; 2014), following previous studies that suggest an inverted U-shape relationship between ownership dispersion and performance (e.g. Anderson and Reeb, 2003; Mazzola, Sciacia and Kellermanns, 2013), study the effect of ownership dispersion on the performance of SMEs, finding that ownership dispersion has a U-shape relationship with firm performance.
With regards to governance structures, family businesses tend to focus on the preservation of ownership in family hands. Many studies suggest that concentrated ownership prevails as a way to monitor the company in the absence of external governance mechanisms (Carney, Gedajlovic, Heugens, van Essen, and van Oosterhout, 2011; Johnson, Schnatterly, Johnson, and Chiu, 2010). Some contradicting studies suggest that family ownership that is highly concentrated may not reduce the frequency of using governance mechanisms (such as provisions) (Memili, Esra and Chrisman, 2012).

Although U-shapes and inverted U-shapes were found in previous studies related to ownership concentration with regards to performance, in the case of development of governance structures, this curvilinear relationship may not hold. This is because, as suggested by Steier (2003), trust plays an important role as an informal governance mechanism that replaces the need for more formal structures. As Gersick et al. (1997) suggest the more dispersed the ownership, the more conflicts there will be, and the higher the need to develop mechanisms to cope with the complexity and inherent conflicts. Hence,

_Hypothesis 3. Ownership concentration is negatively related to the level of development of governance structures._

### 5.4.1.2. Dominant Generation

Which generation is in charge is a relevant issue in family businesses, especially due to the fact that generational transitions are always present in family businesses (Morris et al. 1997). Most family businesses barely survive into second generations (Neubauer and Lank 1998), in part because they do not have governance mechanisms that allow them to perform and survive as complexity increases (Gimeno, et al., 2010; Neubauer and Lank 1998; Schulze et al. 2001). In fact, many studies suggest that family characteristics change depending on the dominant generation leading the family business, and that therefore the business is affected in several ways (Gersick et al. 1997; Steier 2001). Other studies also show that performance, compared to that of non-family firms, varies depending on which generation is in charge (e.g. Villalonga and Amit, 2006; Barontini and Carpio, 2005).

The type of governance needed in each generation will vary accordingly (Bammens, Voordeekers and Van Gils, 2008; Lubatkin et al. 2005; Schulze et al. 2003). For instance, some studies show that family businesses in later generations tend to incorporate more governance bodies and mechanisms than in previous generations (e.g. Cabrera-Suarez and Santana-Martín, 2003; Mustakallio et al., 2002). Cabrera-Suarez and Santana-Martín (2003) find that the adoption of a board of directors increases in line with the generation in charge, in Spanish family businesses. Along similar lines, Mustakallio et al. (2002) in their study about Finnish family businesses ascertain that there is a positive relationship
between the generation in charge and the adoption of family institutions, such as family councils or family plans.

Similarly, Lubatkin et al. (2005) propose that the dominant generation will impact “the nature of altruism and the types of agency problems engendered by it are contingent on the dispersion of the firm's ownership” (p. 323) given the increasing agency problems derived from the increased dispersion of ownership and the impact on familial relationships within firms. It can be deduced that as we move from the founding generation to siblings’ partnership and later to cousins’ consortium as the dominant generation, the more likely family businesses will have more developed governance structures. Thus,

**Hypothesis 4.** Later generations running the business is positively related to the level of development of governance structures.

### 5.4.1.3. Generations Overlapping

Family businesses are characterized by the fact that different generations take over the business at different stages and that they work together over long periods of time. Developmental models and life cycle models usually explain how family businesses change over time in terms of management and structures as complexity increases (e.g. Fletcher, 2004; Gersick et al., 1997; Klyver, 2007).

Dyer (1988) demonstrates that founding generations have a centralized decision making model. Aronoff (1988), extending Dyer’s idea, suggests that subsequent generations manage the business in teams, participating equally in important decision making and tend to have co-CEOs. In fact, Klein et al. (2005) suggest that the more family members involved in the family business the more experience they will have.

While this is true, Gimeno et al. (2010) highlight the increasing complexity that is added when new family members come onboard. Having different generations working together also brings different visions, different goals, and different interests, which may not be aligned. These may lead to conflict and disagreement (c.f. Harris et al., 2004; Kellermanns and Eddleston, 2004; Björnberg and Nicholson, 2007; Sund and Smyrnios, 2005). Having different visions and goals may also diminish commitment towards the business (Carlock and Ward, 2001).

Although conflict can be present even in the first generation, simply as a result of different family members working together (Lussier and Sonfield, 2010), conflict usually increases between members of different generations involved in the family business management and/or ownership (Beckhard and Dyer, 1983). The later the generation, the more the conflict increases (Davis and Harvesson, 1999).

As firms pass stages in terms of age and generations, family businesses tend to be professionalized in terms of management practices and structures (Aronoff, 1998; Blumentritt, 2006; Dyer, 1988; Lane et al., 2006; Schein, 1983). In fact
constructing a common vision as generations debark, managing conflict, building commitment, cohesion and open communication can be more easily done when there are governance structures for support (Aronoff and Ward, 1996; Neubauer and Lank, 1998). Governance structures are arenas that allow for the creation of these spaces for discussion, confrontation and problem solving. In doing so, the more complex the family composition within the business, the higher will be the need to build governance structures to cope with it. Therefore:

Hypothesis 5. The more generations overlapping, the higher the likelihood of developing governance structures.

5.4.1.4. Family Involvement in Management

As discussed earlier, as time passes, family businesses go through different stages or cycles. Gersick et al. (1997) develop three stages that identify the management dimension. These dimensions have to do with start-up phase, formalization or extension and maturity. The particularity in family businesses is the fact that ownership remains in the hands of the family and management positions are held by family members, particularly in the first stage of the family cycle. Over time family businesses tend to grow not only in terms of size, but also in terms of family members as generations pass. In that sense, when passing from the founder stage to the siblings’ partnership, there is usually a team of siblings taking over, still involved in management, but adding complexity (Gersick et al., 1997; Gimeno et al., 2010; Ward, 1991). Gersick et al. (1997) highlight the challenge faced by family businesses in managing the complexity of the family and the shareholder group. Hall and Nordqvist (2008) note that nonfamily members are hired as the family and the business grows to cope with such complexity. Carney (2005) explains that small firms might show higher involvement in management.

As Neubauer and Lank (1998) note in their book, first generations tend to have fewer issues in regards to management and ownership as everything is generally concentrated in the founder’s hands, and therefore governance bodies are not necessarily required or needed to manage the separation of management and ownership, to control manager, or to advise the management team. Similarly Neubauer and Lank (1998) point out that in the second generation, when siblings come onboard some issues may arise in terms of different views and interests, as some of the family owners may be external to the management of the firm.

Especially in the next phase, when the cousins consortium takes over the business, the probability of having all family members working in the company decreases by far (Ward, 2008), and even more “family members will become governors rather than operators” (p. 102). This means that an increasing proportion of nonfamily managers will be present while less family members will occupy managerial positions (Salvato, Minichilli and Piccareta, 2012), becoming passive family shareholders (Gersick et al., 1997; Jaffe and Lane, 2004).
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De Massis, Chirico, Kotlar and Naldi (2014) note that as dispersed ownership derives from the generational transitions, the appearance of more heterogeneous claims and the need to respond to them will increase. Hence, shareholder’s not working in the company may not see their interests represented, especially complex when family owners not involved in the business may be driven by different purposes such as growth and profits (Schulze, Lubatkin, and Dino, 2003a), or preserving their socioemotional wealth (Gómez-Mejía et al. 2007).

The increasing complexity brought by, differences in ages, in education, backgrounds, geographic and blood separation are some of the issues that make it more difficult after each generation transition. This leads to the need to develop governance structures to deal with these issues (Neubauer and Lank, 1998; Gimeno et al., 2010). In fact, Ward (1991) proposes that family businesses pass in terms of management from entrepreneurial management, to professionalizing the company, to creating a holding company, where fewer and fewer family members take over management positions and stay as shareholders, controlling the business from above. Thus,

Hypothesis 6. The more shareholders absent in the company management, the higher the likelihood to develop of governance structures.

5.4.1.5. Values Alignment and the Adoption of Governance Structures

Values are principles and beliefs that guide our behavior (Rokeach, 1968). Becoming a standard over time, they are seen as conceptions of what is desirable for both the family and the business (Hall, Melin, and Nordqvist, 2001). In an organizational setting, values also define what we care about in our organization (Hatch, 1997), guiding our decisions about what we consider appropriate or desirable in terms of governance, performance, operations and even strategy (Ranson, Hinnings and Greenwood, 1980). Many family business studies highlight specific family businesses values, such as commitment, legacy transmission, hard work, and long-term orientation as the characterizing features of their success over time (e.g. Koiranen, 2002; Miller and Le Breton-Miller, 2005).

In fact, values are widely acknowledged as important influences in the family business (e.g. Arrégle, Hitt, Sirmon and Very, 2007; Dyer, 1986), because they are the glue that keeps the family and the business together, serving to maintain commitment to the business (Carlock and Ward, 2001). Sharma and Nordqvist (2008) make an important contribution in their work on values, family involvement, governance and performance suggesting that the guiding values influence governance structures, and the fit between the two leads to performance. Their study does not take into consideration change in values as time passes by, however, nor does it take into account the fact that different
stakeholders (owners and owner-managers) may have different values as they have different backgrounds, education, interests, ages, and so on.

As mentioned in previous hypotheses, the fact that as time passes by, and the family business passes different stages (from founding to siblings partnership or cousins consortium) and family members become more distant in terms of age, interests, backgrounds, education, profiles (Neubauer and Lank, 1998; Gimeno, et al., 2010), brings to light the diverse values that family members can have. This is particularly important when there are some family members working and others not working in the family business, as they tend to see the business and the family differently. Aronoff and Ward (1996) call attention to the importance of having governance structures for value transmission.

Similarly, recent literature on goal setting in family firms highlight the difficulties in aligning goals, given the complex interaction of family and business systems (c.f. Kotlar and De Massis, 2013). Family business literature suggests that the alignment among family members in terms of goals differs across the different stages of the family cycle (Schulze, Lubatkin, and Dino, 2003), where the founding generation is on its own and goals are set by the founder. In the sibling-partnership the brothers may share common goals given their close interaction, and the cousin-consortium stage may increase their differences, and more divergent interests, values, and goals may emerge. Time and succession processes play an important role as well in organizational changes, including goals (De Massis, Chua, and Chrisman, 2008; Steier and Miller, 2010) and values (Parada et al., 2010).

Kotlar and De Massis (2013), in their study about goal setting in family firms, find that family members have diverse individual goals that lead to goal diversity particularly in succession processes. Moreover, they show that goal diversity triggers social interaction processes to contrast such goals and diminish conflict. The way they define organizational goals in terms of goal content and goal recipient in family firms coincides in great measure with family business values. Hence, it can be inferred that the diversity on values leads to the need to find a place to discuss diversity of values to safeguard the family and business. Villanueva and Sapienza (2009) contend that several agendas may be present and managing them is complex, but necessary. Similarly, Miller and Steier (2010) suggest that goals change over time, as new generations take the lead, from family oriented to business oriented.

I contend that the more aligned the values of working family members and non-working family members, the lower will be the need to have different governance bodies. This values alignment will reduce the need to manage multiple and conflicting interests or demands because there will be no such differences in interests and no need to “control” each other’s work. In other words, effective governance structures are necessary when there is the need to understand and manage different stakeholder’s perspectives (Freeman, 1984; Ward, 1991). Therefore,
5. Developing Governance Structures: Hypothesis Development

Hypothesis 7. The alignment of values between family members working and not working in the family business is negatively related to the development of governance structures.

![Figure 4. Family Contingent Factors](image)

5.4.2. Business Contingent Factors

Efficiency seeking has been a key element in understanding why organizations adopt structures and practices. Contingent factors such as age and size are widely used. For instance, Tolbert and Zucker (1983) find that age determines the adoption of practices, particularly for late adopters. Hannan and McDowell (1984) found that the speed of adoption of a practice is related to the size of the organization. Other studies highlight the relationship of strategic choices (such as diversification or internationalization) with board adoption (e.g. Barroso, Villegas, and Pérez-Calero, 2011; Bjornáli and Aspelund, 2012; Calabrò and Mussolino, 2013). Based on these previous studies and Gimeno’s (2004) operationalization I use four variables, size, age, internationalization and industry diversification, as business contingent factors that affect the development of governance structures.
5.4.2.1. Size of the Family Business

The size of the firm has been taken in most studies as a control variable, but in line with Westhead and Cowling (1998) who take size and age as independent variables (though in another context), I use size and age as independent variables directly affecting the development of governance structures. In fact size and age (and life-cycle stages) are important variables in the development of governance structures over time (Ward and Handy, 1988).

Many studies suggest that family businesses develop their governance structures to gain resources not available in the current state (e.g. external members appointed to the board with industry knowledge or internationalization experience) (e.g. Corbetta and Salvato, 2004). Additionally, to manage such growth, which in the end leads to increased complexity (Gimeno et al., 2010) there is a need to develop a specific structure to cope with such growth to generate order, give strategic direction and to achieve efficiency.

Filatotchev and Wright (2005) note that companies may need different governance structures as they evolve over time. Hannan and McDowell (1984) found that the size of an organization is relevant in the adoption of structures and practices. In family businesses this becomes more evident given the need to manage the complexity of such growth in a professional way (Gimeno et al., 2010). Similarly, Brunninge et al. (2007) suggest that size may determine governance in an SME. Correspondingly Carney (2005) finds that size matters. Thus,

\[ \text{Hypothesis 8. The size of the family business will be positively related with the degree of development of governance structures.} \]

5.4.2.2. Age of the Family Business

The life cycle of the firm is relevant in terms of its development because it presupposes different challenges at different stages. As such, the age of the firm may determine many aspects of the business. To start with, over time the firm develops skills and competencies, resources and capabilities, so they move through a learning curve (Ericson and Pakes, 1995) leading to competitive advantages. Conversely, as time passes by companies tend to move towards a decay stage where knowledge and skills become obsolete (Agarwal and Gort, 1996, 2002) if not renewed.

Many studies show that firms tend to develop structure, formalize procedures and policies, increase diversity, and also complexity (Adizes, 1989; Churchill and Lewis, 1983; Greiner, 1972; Miller and Friesen, 1984), however, there is no agreement on the causal relationship between business stage and the structural dimensions (Hanks et al., 1993). Tolbert and Zucker (1983) found that age is directly related to the adoption of practices. Astrachan et al., (2002) suggest that governance structures and practices change over time due to the family and business culture behind them.
Similarly, Gimeno (2004) found that the age of the company affects the business axis. This means that the older the company the more employees there will be, the more the business units there will be and the number of industries in which the company operates may increase. It can be inferred that older companies are more likely to have a higher degree of development in their governance structures, given the increased complexity in terms of family and business dimensions. Hence,

**Hypothesis 9.** The age of the family business will be positively related to the degree of development of governance structures.

### 5.4.2.3. Level of Internationalization and Level of Diversification

**Internationalization**

The relationship between corporate governance and internationalization has received greater attention in recent years (Hitt et al., 2006). Internationalization processes require organizations to cope with higher complexity in decision-making. This is generally done via the development of governance structures (Prhalad, 1990). Internationalizing also requires more access to resources (Johnson and Hitt, 2003; Melin, 1992; Sanders and Carpenters, 1998) which can be achieved by developing or changing governance structures accordingly (Arrègle, Naldi, Nordqvist and Hitt, 2012; Arrègle et al., 2007; Bammens, Voordeckers and Van Gils, 2001).

Some studies have focused on the influence of TMT in international behavior (Athanassiou and Nigh, 2002; Reuber and Fischer, 1997) mainly focusing on the international experience of TMT members and firm internationalization (Burgess and Tharenou, 2002; Sanders and Carpenter, 1998; Tihanyi et al., 2003; Zahra et al., 2007).

Other research centers its attention in boards of directors and international expansion. Many studies focus on the demographic characteristics of the board and firm internationalization (Burgess and Tharenou, 2002; Sanders and Carpenter, 1998; Tihanyi, Johnson, Hoskisson, and Hitt, 2003; Zahra, Neubaum, and Naldi, 2007). Along this line, Barroso et al. (2011) found that board member characteristics influence the level of internationalization. Calabrò and Mussolino (2013) in their work on export intensity in family firms find that an independent board combined with relational norms and trust enhance export intensity.

Other studies have shed light on the board’s importance in international contexts (Gabrielsson, 2007; Ward and Feldman, 2008). For instance, Sanders and Carpenter (1998) find that the complexity derived from the degree of internationalization of a business is accommodated by its governance structure. Similarly, Zahra (2003) found that governance supports the internationalization of family businesses. Arrègle, Naldi, Nordqvist and Hitt (2012) also found that
internationalization is related to the way governance is configured in terms of externals participating in decision-making. Similarly, diversification is directly related to the development of governance structures. Carlock and Ward (2001) argue that internationalizing can be undertaken if family businesses have in place competent management teams and control systems, which is also supported by the findings of Gallo and Sveen’s (1991) findings. In other words, adequate governance structures need to be in place. It is easier to internationalize when formal strategic planning is in place (Bilkey, 1978; Zou and Stan, 1998.)

As complexity increases following entry to new markets, the introduction of new products, or entry into new countries, family businesses will need to adapt their governance structures to the new complexity, for instance hiring externals with great experience (Gómez Mejía et al., 2010). Chrisman et al. (2007) suggest the need to develop formal governance structures. A more formalized governance structures is needed when diversifying to cope with complex and decentralized decision making (Fernández and Nieto, 2005). (Barroso, Villegas, & Pérez-Calero, 2011) contend that all governance bodies play an important role with regards to internationalization. Thus,

Hypothesis 10: The level of internationalization is positively related to the degree of development of governance structures.

Diversification

Equally relevant is the level of diversification as it adds complexity to the business and thus the need to develop governance structures to cope with such complexity. Chatterjee, Harrison and Bergh (2003) studied the diversification of companies and its relationship with governance. They suggest that when internal governance mechanisms fail, then external governance mechanisms take over. In their words:

“If internal governance is inadequate, then external governance mechanisms may eventually play a significant role in realigning the interests of managers and shareholders, when sufficient equity is owned by outside (non-management) shareholders (Hoskisson and Turk, 1990). External governance occurs partially as a result of the market for corporate control” (Denis et al., 1997, p. 88).

This takes place in quoted companies, which may differ from a family business context. Nonetheless, diversification is a strategic choice that needs additional resources usually external to the family business competencies (Galve Górriz and Salas Fumás, 1996; McConaughy, 2000; Schulze et al., 2003b) than can be provided by the governance structure (e.g. external members on the board with know-how and experience), implies investment, increased risk (Gomez-Mejía et al., 2010), and probably the need to access external financing (Chkir and Cosset, 2001; Doukas and Kan, 2006; Low and Chen, 2004), which needs the approval of the shareholders, who are family members, who may or may not
work in the company, and the increase in size of the business which requires effective governance structures to manage such growth. Therefore,

_Hypothesis 11: The level of diversification is positively related to the degree of development of governance structures._

![Figure 5. Business Contingent Factors](image-url)
PART III: METHODOLOGY

The methodology part explains, after a brief introduction, my view on reality, knowledge and, research acknowledging the possibility of combining ontologies. Then I describe why using a multi-method approach is suitable for this dissertation and explain what it means to follow a mixed-method approach (Chapter six). Chapter seven discusses the quantitative strand explaining Mokken scale analysis and Possion regression analysis. Then I present the results and discuss them. Chapter eight introduces the qualitative strand. In chapter eight I develop what is qualitative research and the use of interpretive approach to understand family business issues. Then I present the three Spanish cases and develop the findings of the qualitative strand.
6. A Multi-Method Approach

6.1. Introduction

Research is often said to be guided by the research problem and the research questions formulated (Bryman, 2004; 2007) as they determine the research design and in consequence the methods to be used to answer those questions (Bryman 2004; Creswell, 2003; Mason, 2002). Many researchers emphasize that the questions the researcher seeks to answer and the methods used to study them are determined by specific paradigms (Burrell and Morgan, 1985; Creswell, 2003; Morgan, 2007). Paradigms can be defined in diverse ways, depending on what these encompass. Morgan (2007) describes four types of paradigms that go from general to particular: worldviews, epistemological stances, shared beliefs among members of a specialty area, and model examples of research. In general terms, a paradigm can be defined as a set of beliefs and practices that underlie the way researchers create knowledge and are shared within a community (Kuhn, 1996; Morgan, 2007). Creating knowledge ranges from how we see the world and the methods used to answer specific questions. I believe that the way we see the world will definitely influence in what we study and how we study it. This does not mean however, that our view on the world will constrain our choices, but the contrary, it can give us a broad map of opportunities to discover the world. Those formulations are linked to a philosophy of science informing the nature of the phenomenon and the methods used to explore or explain the phenomenon (Van de Ven, 2007). This philosophy of science helps in the interpretation of meanings or relationships of statements.

For studying the phenomenon of interest a research plan is designed which indicates how the research is going to be conducted. The research design links the type of questions to the appropriate methods for answering them. All these elements are interconnected as they rely on similar assumptions about knowledge and knowledge production, ontology, epistemology and human nature (Morgan and Smircich, 1980). More recently, the increasing use of mixed-methods has been said to loosen the “paradigm” of the essential link between epistemology and method (Teddlie and Tashakkori, 2003). When mixing methods, proponents have suggested a more pragmatic choice of methods to be used, depending on diverse factors (Buchanan and Bryman, 2007). Nonetheless, reflecting on our philosophy is an important step towards enhancing the quality and reliability of the research to increase coherence.

The next points focus on how I see reality and knowledge linking it with the topic to be studied and the methods chosen. It will then give a detailed account
of why a mixed-method approach is chosen, briefly explaining each method and techniques used throughout the study. A thorough explanation of the methods is presented in later chapters.

6.2. A Dual Ontology to Reality, Knowledge and Research.

This dissertation aims to study why and how family businesses develop governance structures. In doing so, the study deals with the motivations for adoption and the process of development. Such a complex phenomenon like all phenomena in fact, has two sides, like a coin. The way we look at things may be incomplete when we narrow down our vision and try to see only one side of the coin. Complex phenomena are comprised, in terms of Van de Ven and Poole (2005) of both process and variance, particularly when talking about organizational change.

Van de Ven and Poole (2005) note that different ontological views influence how we look at change, depending on whether we see the organization as comprised by things or processes (Tsoukas and Chia, 2002). The same logic can be applied to governance structures, whether we see them as consisting of static things, which is the traditional view, or processes that change over time. In line with Barnett and Carroll (1995), my dissertation analyzes the ‘content’ showing what changes, and the ‘process’ shedding light on how the change occurs. This means that I analyze governance structures as a static element. In doing so, I rely on quantitative methods to find the relationship between certain variables (legitimacy and efficiency seeking) and the level of development of those structures. On the other side, to open the black box I use qualitative methods understanding the phenomenon from a process approach.

I use a single theoretical framework, institutional theory, bridging the static view of usually depicted as quite stable (Battilana, Leca, and Boxenbaum, 2009; Thornton and Ocasio, 1999) and explaining institutionalization of governance structures, a process that occurs over time. In addition, institutional theory suggests that institutional work lead purposive actors to change institutions with their day to day actions. In line with the latter, process ontology as depicted by Hernes and Maitlis (2010), fits the idea that the emergent actions and activities of such actors lead to collective endeavors (Van de Ven and Poole, 2005).

The whole picture can be seen if facts are taken into account and if there is also space for interpretation. Working with different paradigms at the same time allows us to open up new ways of thinking and see things from a different angle (Alvesson, Hardy and Harley, 2008). The fact that the development of governance structures has to do with stable and changing elements and particularly with individuals who drive change, I advocate that the broad question studied in this dissertation is in line with the idea of a dual ontology. As Searle
6. A Multi-Method Approach


6.2.1. Understanding the World from a Dual Ontological Perspective

Key questions I tend to ask myself are to what extent, can we really say that elements are stable or rather ever changing, and whether we can separate objects from actors? Following these premises I believe that the topic studied in this dissertation needs a broad view and deserves to be fully covered in order to get the best out of research and practice. This openness and broad understanding of reality and knowledge may fall within dual ontology ideas.

The dual ontology can be traced back to Searle’s (1995) book on “The Social Construction of Reality” where he criticizes Berger and Luckmann’s (1969) implicit idea that everything is socially constructed. Searle, who worked with John Austin, noted the role of language in transmitting not only information but many other things. Searle’s main assumption is based on the idea that language helps in building institutions as long as they are based on rituals (e.g. family businesses and governance structures as is the case in this dissertation) leading to a social construction of such institutions. Despite the fact that an institution is socially constructed and it can disappear as such, these institutions are objective. While Berger and Luckmann’s work on social constructionism is widely accepted and used as ontology, it does not really look in-depth into ontological assumptions, but rather it is a text about the sociology of knowledge. It could be argued that the main premises of Berger and Luckmann overstate Alfred Schutz’ work.

My idea of the world falls within Searle’s idea of dual ontology. In line with a realist approach I accept that there are objects in this physical world that are independent from us and from our contemplation. This realist view, as Bhasker (1975) explains, has to do with accepting the fact that there are some objects out there, and stable relationships between governance structures and the motivations behind their adoption. Without denying the fact that they are unobservable or intangible, however, I buy the idea that these structures exist as do their relationships, thus “they truly represent or correspond to some reality external to the theorists” (Hunt, 1990, p. 11).

This ontological view, more in line with positivism allows studying the phenomenon from a ‘variance’ perspective. This implies representing governance structures as ‘things’, a real entity with stable properties.

Similarly, this view implies viewing process studies from a ‘being’ perspective, in line with a weak-process approach described by Chia and Langley (2004), and Tsoukas (2005), where things are seen as static elements and processes are seen as the triggers to change their qualities.

On the other side, however, I also acknowledge that family businesses and their structures and institutions are socially constructed (Berger and Luckmann,
This ontology depicts reality is socially constructed by human actors through language, communication and interpretation. If this is true, then it means that it can also be deconstructed ad even disappear, since meanings and interpretations can change over time, but the structure as such will remain.

The main premise behind social constructionism is the need to interpret human action, as the mental plan and the purpose are not directly observable, but the act is. In that sense we can observe the existence of governance structures, yet we cannot understand how and why they are developed if we do not interpret human action behind it.

With this view on reality, process studies can be considered from a ‘being’ perspective, meaning that things are made by processes, being in constant movement evolving and becoming something else (Hernes, 2007), in line with the third approach of Chia and Langley (2004).

This dual ontology allows understanding the process from both sides of the coin. On one side, it can show governance structures as an object that exists (Hunt, 1990), but on the other side, we can also capture the changing nature of such structures (Hernes and Maitlis, 2010) since they are in constant movement and we acknowledge human actor’s role in creating and changing a social reality. As Van de Ven and Poole (2005) suggest in their article, my intention is to combine both approaches to better understand a complex phenomenon where stability and change go hand in hand (Lindell, Melin, Gahnberg, Hellqvist and Melander, 1998).

In line with my dual ontology approach, I believe that answering this complex research question requires the use of theories that allow us to understand the problem and further develop the “truth” that is in line with our experience. Equally important is the fact that this phenomenon is seen on one side from a static point of view and from a more generalist approach (more in line with positivism and realism), combined with a more particularistic approach, where individual cases studies are analyzed in-depth to understand processes and open black boxes (a more constructivist and interpretivist approach). What makes this mix possible is the fact that the classic paradigms, as Searle (1995) suggests, may go hand in hand since not everything is black or white.

### 6.2.2. Doing Research with a Dual Approach

Morgan (2007) questions the idea of a reality already out there constraining our thinking, and the idea of an objective truth (Morgan, 2007). Morgan suggests a pragmatic approach to research, alleging that this approach allows the combination of different methods that are seen as opposing.

Most tenets of mixed methods provide tables that show the differences between quantitative, qualitative and mixed methods (e.g. Morgan, 2007; Patton, 2002; Teddlie and Tashakkori, 2003). Morgan (2007), for instance, compares his pragmatic approach with the mixed method approach. His table takes three main
6. A Multi-Method Approach

issues where differences exist among the different “paradigms” (qualitative, quantitative and pragmatic): connection of theory and data (induction, deduction and abduction); relationship to research process (subjectivity, objectivity and intersubjectivity); and inference from data (context, generality, transferability).

Table 1. A Pragmatic Alternative to the Key Issues in Social Science Research Methodology

<table>
<thead>
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<th>Qualitative Approach</th>
<th>Quantitative Approach</th>
<th>Pragmatic Approach</th>
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<tbody>
<tr>
<td>Connection of theory and data</td>
<td>Induction</td>
<td>Deduction</td>
<td>Abduction</td>
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<tr>
<td>Relationship to research process</td>
<td>Subjectivity</td>
<td>Objectivity</td>
<td>Intersubjectivity</td>
</tr>
<tr>
<td>Inference from data</td>
<td>Context</td>
<td>Generality</td>
<td>Transferability</td>
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Put simply, Morgan (2007) states that the pragmatic approach brings versatility and the capacity to work by combining methods as part of the important goal of creating knowledge. Abductive reasoning allows for going back and forth between induction and deduction, which is mainly used in studies that combine quantitative and qualitative research (Ivankova, Creswell, and Stick, 2006). Intersubjectivity is what best defines the usual way of doing research in practice. This means to work back and forth with different frames. Finally, transferability is what best describes how data is analyzed and inferred. The key question here is the extent to which it is possible to transfer what we learn in a specific setting, and/or with a specific method, to other situations.

The next section explains the use of mixed methods and the reasons for choosing this methodology to answer the research questions posed in this dissertation.

6.3. Research Design: Using Mixed Methods

Creswell (2003) defines research design as a creation that requires paying attention to both, the “big picture” and the “details” (p. xix). Designing research has to do with the interrelation of different parts that comprise a whole (Creswell, 2003). The four issues that define a research design thus have to do with epistemology (assumptions and paradigms behind the theoretical lenses used), the theoretical perspective and its philosophical stance, the methodology, and the techniques to collect data (Crotty, 1998). As explained before, paradigms have been at the center of research discussions, as both beliefs and practice that influence the way we choose our research questions and which methods we apply to answer these questions, as well as our beliefs related to how we see reality and truth (Morgan, 2007). There has been an increasing interest in combining
quantitative and qualitative methods in the last decade to understand complex phenomena.

Mixed-method research is defined as “…research in which the researcher collects and analyzes data, integrates findings, and draws inferences using both, qualitative and quantitative methods in a single study or program of inquiry” (Tashakkori and Creswell, 2007b, p.4; Morgan, 2007; Teddlie and Tashakkori, 2009). The mixed use of quantitative data and qualitative case studies allows complicated questions to be addressed (Yin, 2009) such as what, how, and why that appear in this study.

As Creswell (2011) notes, mixed methods are appropriate when one single method (quantitative or qualitative) does not provide a complete understanding of the problem. As this study is about development of governance structures which implicitly includes change, using only one method “may fall short” for this topic of study (Creswell, 2003), and may limit “the way to conceptualize change and development as it might overlook relevant aspects of change processes (Van de Ven and Poole, 2005, p. 1383). In other words, it may leave an important piece of the puzzle out and show an incomplete picture of what is intended to be studied in this dissertation.

As Hall and Howard (2008) describe in their synergistic approach to mixed methods design, I use both, quantitative and qualitative because the sum of both is greater than either approach alone. When using mixed-methods four aspects should be taken into account regarding the strands (quantitative and qualitative methods), (1) level of interaction, (2) priority, (3) timing, and (4) mixing.

For my dissertation I have decided upon the following criteria. First, the level of interaction of the two strands is interactive, because there is a single research question, and the interaction occurs from the beginning as the main framework is thought for both strands. Second, equal priority has been given to both strands, as they complement each other, rather than putting more weight in one of them. Third, timing, particularly regarding data collection, is concurrent, meaning that they overlap within the same phase of the study. Lastly, when and how to mix both strands, is related to the point of interface or integration (Morse and Niehaus, 2009). I do this mainly in two stages, at the beginning of the design within the theoretical framework, and at the end of the thesis during interpretation. This allows me to understand each strand profoundly and then combining both to get the whole picture.

In summary, using mixed methods allows, on the one hand, getting broader generalizations, as we use specific variables in large samples; on the other hand, it allows getting more detailed view of individuals actions and voices (Creswell, 2011). This allows to seeing different dimensions from the same phenomenon given that it puts together content (variance) and process elements (Van de Ven and Poole, 2005).
6. A Multi-Method Approach

6.3.1. A Convergent Parallel Design

This dissertation follows a convergent parallel design where data is collected from quantitative and qualitative sources (Creswell, 2003; Teddlie and Tashakkori, 2009) concurrently, aimed at answering related aspects of the same basic research questions (Teddlie and Tashakkori, 2009). Data analysis is done separately converging and integrating later in the overall results. Creswell (2003) calls this design transformative concurrent. This design privileges a theoretical lens as the overarching framework that informs both the quantitative and the qualitative study (Creswell, 2003).

This dissertation is informed mainly by institutional theory, complemented with process theory to enrich the qualitative part. First it helps to draw research questions and derive hypotheses regarding institutional pressures and efficiency needs (or contingent factors)\(^\text{12}\) and its relationship with the level of development of governance structures. Second, it gives a preliminary framework to start qualitatively investigating the in more depth, provides some hints about how and why family businesses develop their governance structures, and suggests anticipated outcomes and changes regarding decoupling and substantive adoption.

I privileged this design over other possible options for several reasons. As (Creswell & Plano-Clark, 2011), explain it seems to be “…an efficient design in which both types of data are collected during one phase of the research at roughly the same time” (p.78), and it allows to collect and analyze data separately and independently, using the techniques traditionally associated with each data type. The development of governance structures is a complex topic that needs a complete understanding. Data was naturally collected in overlapping times as the database was originally collected in 2004 and continued collecting data throughout the years, and the qualitative data collection started in 2006 as part of two larger projects. This gave me the opportunity to observe the connection between the two methods and its complementarity in addressing the phenomenon. It also allowed me to have different units of analysis.

The quantitative approach focuses on the development of governance structures narrowly defined by dummy variables (yes/no). By using Mokken Scale Procedures I address the sequence of development. Regression analysis serves to find the relationship between the variables operationalized. The case-based qualitative approach covers a wider range in the process opening the black box.

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\(^{12}\) For more details see chapter 5.
6.3.2. Quantitative Method vs. Qualitative Method

The quantitative strand works in a deductive way to understand why family businesses develop their governance structures? A quantitative approach is appropriate for answering the overall research question from this angle because hypotheses can be drawn and causal relationships can be found. Data is collected through a survey (Bryman and Cramer, 1999; Orum and Feagin, 1991). This approach is meant for capturing a large number of variables from a large number of cases (Orum and Feagin, 1991), as is the case of the database used in this dissertation containing 1,596 cases. It applies formal measurements and uses statistical techniques to analyze the data (Davidsson, 2004).

The dependent variable and the relationships emerge from theory hypothesizing. It determines that family businesses are increasingly exposed to institutional pressures stemming from professional associations and family-business logic, and assumes that efficiency reasons (contingent factors) go hand in hand with institutional pressures that advocate for efficiency. Family businesses might therefore feel either forced and/or the need to develop their governance structures in a specific way. This leads to the decision to choose Mokken scale analysis as the procedure to determine whether there is a specific sequence in the development of governance structures (latent variable).

Mokken scale analysis (Mokken and Lewis, 1982) is a hierarchical scaling method that assumes the existence of an underlying latent variable represented by a set of items (Molenar et al., 1998). It serves for “scaling items on a unidimensional, ordinal scale (Sijtsma and Verweij, 1992, p. 355), so the items can be ordered by degree of difficulty following a determined order. In this study, following the literature on family business governance the latent variable is defined as governance structure comprised of four elements: the Executive Committee, Board of Directors, Family Council and Family Constitution.

Given the nature of the dependent variable (an ordinal variable with a specific order) a Poisson regression analysis is used to find the causal relationship between the variables operationalized. Multiple regression analysis is also adequate when there is one metric dependent variable and various metric and/or non-metric independent variables (Hair, Black, Babin, Anderson, and Tatham, 2006) as is the case in this study.

The qualitative strand complements the quantitative study by opening the black box of the process of developing governance structures. This is possible because the phenomenon is studied in its natural setting, interpreting the meanings people give to them (Denzin and Lincoln, 2005). In general terms qualitative research refers to:

“...a situated activity that locates the observer in the world. It consists of a set of interpretive, material practices that make the world visible. They [these practices] turn the world into a series of representations including field notes, interviews conversations, photographs, recordings and memos to the self” (Denzin and Lincoln, 2005, p. 3).
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As a qualitative researcher I worked as a “bricoleur” where I put together pieces of the meanings that individuals give to the world together. I fall into the category of an ‘interpretive bricoleur’ as I try to put together the pieces of a complex world (Denzin and Lincoln, 2005).

The study relies on a multiple case design (Yin, 1984) where three Spanish cases were used. These cases were purposefully chosen from the STEP Project, a larger project about Successful Trangenerational Entrepreneurship Practices, I have been involved with since 2006. Data was collected through in-depth interviews to family and non-family members. Additional interview rounds were done with key informants. Data gathered through the interviews, observation and some secondary material was analyzed from an interpretive approach (Alvesson and Sköldberg, 2009) which also included a sequence perspective (Abott, 1988).
7. Quantitative Approach

7.1. Introduction

As previously noted, I use a quantitative approach to shed light on two important issues: the extent to which family businesses develop a specific governance structure and the motivations behind. Inspired by Kennedy and Fiss’ (2009) findings in their study of TQM implementation in U.S. hospitals, who conclude that the “logics of efficiency and legitimacy are more compatible than has been generally assumed” (p. 914), I examine the relationship between legitimacy and efficiency seeking for developing governance structures in family firms. Hence, this study proposes two sets of hypotheses that require two different types of methodologies. The first one is related to the dependent variable. Given the ordinal nature of the variable, Mokken scale analysis is used to find whether the four governance mechanisms widely prescribed comprise a scale. Once the type of sequence being followed is found, the second method used is multiple regression analysis to see which factors trigger this development. This is to test the relationship between legitimacy reasons and efficiency reasons, and the level of development of governance structures.

In the following sections I explain the data collection and the sample used; I present the operationalization of the variables and thoroughly describe the methodologies used. Finally, I develop the analysis and results.

7.2. Data Collection and Sample

The dataset used in this dissertation derives from previous studies performed by Gimeno et al., (2006); Gimeno et al., (2010). Using existing databases has many advantages. The interview has been previously validated, increasing the validity of the collected data. Having access to privately-owned family businesses is difficult; therefore having the opportunity to use an existing large database with key data about family firms is of great value to the research. This database includes a large number of cases theoretically representative implying an adequate context to test the theory. This entails a different context than those commonly used (U.S/U.K), and a different context in terms of institutional field.

7.2.1. Original Data Collection

Data was first collected for a project led by Prof. Alberto Gimeno from ESADE Business School in 2000. The study of “Family Businesses in Madrid: Structural
7. Quantitative Approach

Characteristics"13 was the starting point. There was no specific database of family business data in Spain, therefore an existing database of Madrid companies made by Schober-PDM, and considered the most complete, was used.

For that study, family firms were defined in terms of minimum turnover (higher than €600,000) omitting micro-organizations that entail different characteristics. Additional requirements were used to define the sample in terms of family involvement in management based on surname coincidences to depict family relationships and thus the existence of a family business (either two or more members of the board of directors or top management team would have the same surname, or at least one board director would hold the same name as the company’s). Daily and Dollinger (1993) used the same criteria to differentiate family and non-family businesses in a company from a database pertaining to Harris’ Industrial Director. After filtering the companies according to the previous requirements the final database was formed by 3,589 family businesses.

Before sending the questionnaire a hierarchical order was established to attain the person with highest position in the company. The following order was created: 1) Chair of the Board, 2) CEO, and 3) Manager. The first round of surveys was sent via post in the first week of September 2000 to the 3,589 potential family businesses. The survey and letter was directed to the individual with highest hierarchical position in each family business in the database. The survey was auto-administered, meaning that the individual who received the questionnaire answered by themselves with no researcher around. The letter included an envelope to send back the filled questionnaire. During these first three weeks, a total number of 125 surveys complete were received. This represented a 3% of the database. In the third and fourth weeks of September a follow–up contact was made via telephone, where 3,464 calls were made. Out of these calls, an additional pool of 90 completed surveys was captured. In total there were 235 family businesses who responded accurately and completely to the questionnaire. These 235 family businesses became the basis of the survey.

After finishing the project, data was validated and it showed potential to be used as a survey for helping family businesses to understand their family and business complexity and diagnose their situation. Therefore, starting in 2002 many different projects were started using the survey. From 2002 to 2005 a new set of data was collected through Family Business Knowledge (FBK)14 and ESADE colLaborating in different consultancy projects. These five years presented a total of 905 surveys completed.

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13 For more detailed information about the original study and data collection refer to Gimeno (2004).
14 FBK stands for Family Business Knowledge, a family business consultancy group based in Barcelona.
In 2006 Professor Alberto Gimeno from ESADE Business School started a new project with BBVA\textsuperscript{15} investigating family businesses also in collaboration with FBK. With a database of 1,237 respondents they used 362 variables to understand the structural risk of Spanish family businesses.

### 7.2.2. Final Sample for this Study

FBK has used this questionnaire for over 14 years to diagnose the family and the business situation and proposing solutions for family businesses. The survey is completely anonymous. In exchange for participating in the survey, companies receive an extended report analyzing their characteristics, risks, strengths and opportunities. Family businesses interested in having feedback about their current situation and future risks and opportunities are thus motivated to take part on the study. Family businesses participating in this survey are invited through different institutions like FBK, ESADE Business School, the IEF (Instituto de la Empresa Familiar), among others. The sample derives from self-selection and random sampling. The target population is privately-held family businesses which are not easily accessible, and are often reluctant to share information with people external to their organization (Brundin, Florin-Samuelsson and Melin, 2014).

Sample size increases statistical power and reduces sampling error. Large samples reduce the detrimental effects of nonnormality (Hair et al, 2006). Data for my analysis, therefore derives from the data collected between 2000 and 2010, allowing for analyzing a large dataset. For this study, therefore a dataset of 1,972 Spanish family firms was made available. After cleaning the database a final sample of 1,596 family businesses was used to conduct the research. All were privately held and they vary from micro to macro family businesses in terms of employees. The sample includes a wide range of companies of different sizes, measured in number of employees (see Figure 6), and ranging from 10 to more than 100 years old (see Figure 7).

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\textsuperscript{15} BBVA is Banco Bilbao Viscaya Argentaria. One of the largest Banks in Spain
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7.3. Operationalization of Variables

The questionnaire used is composed of 362 variables, of which I use 15 variables for my study. Four main items comprise the latent variable ‘Governance Structure’. These four elements are the: (1) Executive Committee, (2) Board of Directors, (3) Family Council, and (4) Family Constitution. The questionnaire
also provides items related to the independent variables legitimacy and efficiency seeking (belonging to professional associations, family-business logic, the size and age of the company, level of internationalization and diversification, ownership concentration, values alignment, dominant generation, generation overlapping, and shareholders not working in the company). I explain the operationalization of these variables in the next paragraphs.

Governance literature in general and family business literature in particular has taken for granted the existence of governance structures. Most studies focus on the composition of governance structures, their roles, and their effects on performance. Particular emphasis has been placed on boards of directors and top management teams. Most studies focus on a single governance mechanism (Bruninging et al., 2007). Seldom have governance structures been considered as something comprised of several related governance mechanisms.

Following institutional theory literature, some studies have paid attention to institutional pressures as the causes for developing structures and practices (e.g. Greenwood et al., 2002; Nordqvist and Melin, 2002; Melin and Nordqvist, 2007; Parada et al., 2010) While these studies note the role that institutional pressures play in the adoption of practices and structures, little effort has been made to understand whether family firms follow a pattern in order to create their governance structures, given that they might conform to institutional pressures as suggested by Nordqvist and Melin (2002).

Little research exists on the factors that trigger the development of governance structures in family businesses (Gersick and Feliu, 2014) which is well known for having different needs compared to those of non-family businesses, given the family involvement, role overlaps, and divergent interests (Bettinelli, 2011; Davis, 2008).

The hypotheses suggested, involving the development of a specific governance structure and the relationships exposed in chapter 5, between governance structure and adoption motivations are operationalized in the following section to convert the constructs into observable variables (Davidsson, 2004).

Most concepts are operationalized with a single item for two reasons. First, most variables are straightforward questions that require a simple answer (e.g. the existence of governance mechanisms, or percentage of shares). Second, using an existing database provides many relevant variables, but they not necessarily constructed for the purpose of this dissertation. In a class about the development of scales Professor Willem Saris commented that variables constructed with single items were better because they measure what they have to measure. Sometimes various items measuring the same variable may add confusion. Contradicting indications appear in the literature with regard to variables
measured with a single item, however (e.g. internationalization level\textsuperscript{16}). Some scholars claim that having a single item to measure a complex construct might cause distortion and thus, the result might be less accurate (Sullivan, 1996) as multi-item measures may better capture the whole concept. More complex variables, such as family-business logic are operationalized with multiple items to better capture the construct (Sullivan, 1996).

Several considerations, such as internal validity, external validity, generalizability, and rigorousness have to be taken into account to address the research questions. Measures that have been already tested in previous studies are used to achieve validity, because this assures that the characteristics of these measures are theoretically meaningful (Davidsson, 2004). This is relatively easy with single item variables. In the case of multiple item variables (as in family-business logic), factor analysis is used to find clusters of variables that correlate more highly than with other variables in order to achieve a degree of reliability and validity, (Nunnally and Bernstein, 1994). In the next segment the different variables are operationalized.

7.3.1. Governance Structure

Many studies in family business recommend structures to deal with family, and business issues separately (e.g. Aronoff and Ward, 1996; Carlock and Ward, 2001; Gallo and Kenyon-Rouvinez, 2005; Hoy and Sharma, 2010; Neubauer and Lank, 1998; Nordqvist, 2011). In doing so, these prescribe the attention of family issues through family meetings and rules, to strategic issues by implementing sound boards (Carlock and Ward, 2001; Gallo and Kenyon-Rouvinez, 2005), and to management issues by focusing on top management teams (Aronoff and Ward, 1996; Gallo and Kenyon-Rouvinez, 2005; Gersick, 1997). These structures differ according to the specific situation of the family business (Nordqvist et al., 2014). For instance, Brenes et al., (2008) note that setting a board of directors is related to the lifecycle of the family business. Even though there is a diversity of governance structures to pick from (e.g., Daily, Dalton and Cannella, 2003), some are highly prescribed by consultants, researchers and larger institutions (Melin and Nordqvist 2007). The four governance mechanisms used in this dissertation are chosen because they are the most prescribed mechanisms in the field, and the ones considered most important. These mechanisms are: the executive committee (top management team)\textsuperscript{17}, board of directors, family council and

\textsuperscript{16} In Internationalization literature some scholars advocate for single-item measures for internationalization. Others propose multiple-item measures to capture the whole concept of internationalization (e.g. Zahra & George, 2002a).

\textsuperscript{17} Top management team (TMT) and executive committee are used interchangeably in this dissertation following the definition of Nordqvist et al., (2014), who says that TMT is a body that meets regularly.
family constitution\footnote{Other important governance mechanisms (such as shareholder assemblies, audit committee, or family assemblies) are not taken into consideration, first because these are not prescribed as often as the others; second, because the four are more frequently present in family businesses; and third, because the data available provides more information about these four mechanisms.}. I define governance structure as comprised of one or more governance mechanisms.

The questions are formulated as “Do you have a board of directors?”, “Do you have a family council?”, “Do you have an executive committee?”, “Do you have a Family Constitution?”. The existence of governance mechanisms is defined by dummy variables (1) if family firms have a governance mechanism and (0) if they do not have one.

7.3.2. Legitimacy Seeking

Most studies related to legitimacy seeking agree on the fact that organizations conform to institutional pressures (e.g. Chizema and Kim, 2010; Li and Harrison, 2008; Judge, Douglas and Kutan, 2008; Ocasio, 1999; Sanders and Tuschke, 2007; Venkatraman, Loh, and Koh, 1994) exercised by powerful institutions. These powerful institutions may be professional associations (Greenwood, Suddaby and Hinings, 2002; Melin and Nordqvist, 2007; Nordqvist and Melin, 2002; Parada et al., 2010), but they can also be family and business institutions (Lansberg, 1983). This study takes into consideration professional associations as powerful institutions that influence the adoption of structures and practices (Greenwood et al., 2002; Parada et al., 2010). It also considers family and business to be powerful institutions as they influence the behavior of individuals (Lansberg, 1983) and will condition the way that governance structures are set in the organization.

7.3.2.1. Belonging to Professional Associations

Professional associations play an important role in the decisions related to adopting governance structures and practices (e.g. Greenwood Suddaby and Hinings, 2002; Melin and Nordqvist, 2007; Parada et al., 2010; Smith, Haniffa, and Fairbrass, 2011). Participation and involvement in professional associations lead to the adoption of certain structures and practices (Greenwood et al., 2002; Parada et al., 2010). This means that belonging to a professional association may be a good indicator of the adoption of governance structures. In line with Greenwood et al. (2002) and Parada et al. (2010), I suggest that professional associations will influence the adoption and development of governance structures in family businesses.

In this thesis, the variable “belonging to a professional association” is measured with a single item and has been defined as a dummy variable: (1)
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belonging to a professional association, (0) not belonging to a professional association.

7.3.2.2. Family-Business Logic

Family businesses are said to live in a constant paradox (Schuman, Stutz and Ward, 2010) due to the two sometimes conflicting logics of the family and the business social institutions (Lansberg, 1983), including divergent points of view (Schuman et al., 2010). This is because institutional logics purport a unique set of values, principles and norms that influence behavior (Friedland and Alford, 1991; Thornton and Ocasio, 2008). As family businesses are embedded in these two different social institutions purporting contradictory logics (Lansberg, 1983), their orientation will influence the type of governance structure that they will set.

In the case of the family institution values, norms, and principles are related to socialization, nourishing, care and protection of its members, “satisfying the family member’s various developmental needs” (Lansberg, 1983, p. 40). Family logic is based on emotional decisions (Carlock and Ward, 2001), and unconditional acceptance of its members (Schuman et al., 2010), therefore the family business is seen as an extension of the family. The company is conceived to provide with work for family members, “nurture family members and advance the family’s well-being” (Miller et al., 2008 as cited in Fiegener, 2010, p.298). Equality is the basis for relationships. In the case of a business institution the focus is the opposite. The focus is on “accomplishing tasks, focusing outward on the external environment and looking for ways to exploit change” (Carlock and Ward, 2001, p. 5). In other words the focus is on profit, growth, meritocracy, and value maximization (Fama and Jensen, 1983; Schuman et al., 2010).

Family-business logic can be defined as a continuum from family to business. In fact Schuman et al., (2010) use the continuum to assess whether families are more family-oriented or more business-oriented19 and they see these as paradoxes. In the end it has to do with the values, principles and norms that reign in each institution. Their continuum can be ranged as points on a Likert scale from 1 to 5 and has two extremes (e.g. merit and equality, selective family employment vs. inclusive family employment).

I define family-business logic with 5 items (see Appendix 1) with corresponding questions that demonstrate whether a family business has more family logic or business logic. A 5 point Likert scale is used, where 5 means “completely agree” and 1 means “completely disagree”. This means that the closer to five means more family-oriented, and the closer to one means more business-oriented.

To assess consistency between the items that measure the constructed variable family-business logic, first I checked for reliability with Cronbach’s alpha. The results of the test showed a reliability of .552 (See Table 2), an acceptable level of reliability\(^{20}\) (close to .6). While it is slightly lower than the recommended threshold of 0.6 (Hair, 1998), results may be affected by the non-normality of my data, given that alpha assumes uncorrelated errors (Guttman, 1945; Novick and Lewis, 1967) and normal distribution (e.g., Zumbo, 1999). This small distortion, however, may not affect the study, as the sample size (> 1000) provides enough cases to dilute this effect.

<table>
<thead>
<tr>
<th>Cronbach Alpha</th>
<th>Cronbach alpha typified</th>
<th>No. of items</th>
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<tr>
<td>.552</td>
<td>.557</td>
<td>5</td>
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Table 2. Cronbach Alpha Family-Business Logic

### 7.3.3. Efficiency Seeking: Contingent Factors

As previously noted efficiency seeking is an important trigger in adopting and developing governance structures. Family businesses need to create governance structures to efficiently deal with the contingent factors derived from their overlapping institutions of family and business (Aronoff and Ward, 1996; Lansberg, 1983).

Following previous studies in the family business field I use five variables that may influence the need to develop governance structures. These variables are ownership concentration (e.g. Calabrò and Mussolino, 2013; Klein, Astrachan, & Smyrnios, 2005), dominant generation (e.g. Bammens et al., 2011), generations overlapping (e.g. Calabrò and Mussolino, 2013; Miller, Le Breton-Miller, & Lester, 2012), family involvement in management (e.g. Klein et al., 2005), and values alignment between active and passive shareholders (e.g. Klein et al., 2005). These variables are mainly related to the degree of family influence or involvement in the business (cf. Nordqvist et al., 2014; Sharma 2004).

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\(^{20}\) Most studies specify that the threshold for acceptability of Cronbach’s alpha is 0.6 (Hair et al., 2006), especially for exploratory analyses. Other studies suggest that a result of 0.3, 0.6, or 0.8 correspond to unacceptable, acceptable, or very good reliability (Caplan et al., 1984, p. 306; DeVellis, 1991, p. 85; Nunnally, 1967, p. 226).
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7.3.3.1. Family Contingent Factors

Ownership Concentration

Ownership concentration is an important variable in governance issues. Some proponents suggest that ownership concentration reduces the risk of principal-agent problems. Other studies suggest that ownership concentration helps the survival of a firm over time (Wilson, Wright and Scholes, 2013). It is evident in family firms, however, that over time this ownership concentration tends to disperse when new generations come on board as shareholders (Nordqvist et al., 2014). In line with Wilson et al. (2013), ownership concentration is measured as the total percentage of shares in family hands (dominant group).

Dominant Generation

Generational issues are highly relevant in family business studies, as they affect the way the business is managed, and thus the type of governance structure that is set (Gersick et al. 1997; Steier, 2001), because of the logic (values, principles, norms that dictate behavior) behind decisions and actions, and because of the need to manage the increasing complexity of more family members participating in the family business in diverse ways.

In line with Bammens et al. (2008), to determine which generation is in charge, I used the question “Which is the dominant generation?” and “Who has more power currently?” The answer was codified into first, second, third, fourth, fifth and subsequent generations.

Generations Overlapping

Family involvement has been measured in various ways. One of these is the number of family members working together or having influential positions, but I define it in terms of generations working together. While many family members working together adds complexity to the family business, it is even more complex when different generations overlap in decision-making, as interests, behaviors and even values vary across generations (Okorafo, 1999; Swinth and Vinton, 1993; Welch, 1992). The question is “How many family members work in the company from first, second, third, fourth and subsequent generations?” I constructed a variable where I could determine how many generations overlapped.

Family Involvement in Management

As the family business moves along its lifecycle, there is a tendency to have fewer family members involved in management (Nordqvist et al., 2014; Salvato et al., 2012) becoming passive shareholders. This leads to the need to create some arenas where they can be part of and manage the divergent interests (Nordqvist
Family involvement in management is usually measured in terms of how many family members have executive positions. “How many family members”, usually defines the degree of involvement. In this case, as my definition already suggests a type of family involvement in management, I operationalize the presence of family members not involved in management. An important nuance in this operationalization is the consideration of shareholders not working in the business. Shareholders not working in the company is operationalized as a dummy variable (1) / (0) yes/no. The question is “Are there shareholders not working in the family business?”

**Values Alignment**

Over time values and goals tend to diverge because as family members move along the family lifecycle (founder, siblings partnership, cousin consortium) (Gersick et al, 1997) and business lifecycle (Gersick et al., 1997; De Massis, Chirico, Kotlar and Naldi, 2014; Kotlar and De Massis, 2013), they become more detached and have less things in common between each other. This misalignment in values leads to the need to create governance structures to find a place where to discuss and contrast such issues (Kotlar and DeMassis, 2013).

Values alignment between passive and active shareholders is defined with a 5-point Likert scale question. The question is posed in the form of a statement: “Family members who work in the business and those who do not work in it coincide in business orientation and strategy”.

### 7.3.3.2. Business Contingent Factors

As already suggested by other researchers, the level of complexity in a business may have significant influence on the adoption of governance structures (Gimeno et al., 2010; Meyer and Scott, 1983). In line with previous studies this dissertation takes four variables into consideration that may define the level of development of the governance structure in a family business. These variables are size (Tolbert and Zucker, 1983), age of the firm, level of internationalization (Calabró and Mussolino, 2013), and level of industry diversification (Miller et al., 2012).

**Size**

As the size of an organization increases, the complexity in a business will be greater (Fama and Jensen 1983; Gimeno et al., 2010; Meyer and Scott 1983). This means that the development of the business will impact governance development (e.g. Fiegen et al., 2000; Lynall et al., 2003), because this results in the need to create structures and practices that help in efficiently managing the need for additional resources, clear strategic views and talent management (Lansberg, 1983). This is why the larger the size of the business, the more likely the need to develop a governance structure. Previous studies have found that size influences
the adoption of practices (Tolbert and Zucker, 1983) and the development of
governance structures in family businesses (Brenes et al., 2008b). Most studies in
the family business field use size as a control variable (e.g. Miller et al., 2012;
Calabrò and Mussolino, 2013).

Following Tolbert and Zucker (1983), I measure size as an independent
variable. This variable is measured by the number of full-employees, grouped in
accordance with the EU regulation\textsuperscript{21} definition of micro, small, medium, and
large, corporations.

\textbf{Age}

Firm age has been shown to be a determinant in the development of governance
structures, because as time passes new generations come on board, relationships
deteriorate, and ties are weaker (Randoy and Goel 2003). Firm age is measured
by calculating the number of years of existence from the foundation year. The
question formulated was: “When was the company founded?”.

\textbf{Internationalization}

Most studies on internationalization in family business agree on the fact that
family businesses are more reluctant to internationalize because they do not feel
comfortable with in losing control, taking high risks, and bringing outsiders
(Casillas and Acedo, 2005; Fernández and Nieto, 2005; Gallo and Sveen, 1991).
In other words, if family businesses do not develop their governance structures
(which in the end means bringing in outsiders, giving up some control, and taking
risks at some point in time), they may not be sufficiently prepared to
internationalize. Naldi and Nordqvist (2009) found that family firms may be
successful in internationalizing as long as they have in place adequate governance
structures (e.g. external ownership, external board members, external CEOs,
and/or a large top management team). Gupta (2013) notes that corporate
governance, among other things, is a key factor to accelerating
internationalization in family businesses).

Some researchers advocate multi-item measures to measure the degree of
internationalization (c.f. Sullivan, 1994). The use of a single item has been the
object of discussion. Sullivan (1994, 1996) argues that multiple-item measures
should be used rather than a single item indicator. Similarly, other scholars

\textsuperscript{21} According to EU legislation (1) Microenterprises have less than 10 employees; (2) Small
businesses have 10 employees to 49; (3) Medium companies have 50 to 249 employees; and (4)
large enterprises have 250 or more. Source:
recognize that multiple-item measures better represent the different facets of firm internationalization (i.e. Reuber and Fischer, 1997; Zahra and George, 2002a). Others, however, prefer single-item measures, and in fact, most studies use a single indicator (Naldi 2008).

In this thesis I use a single indicator based on the number of countries in which the family business has operations (e.g. Sullivan1994; Tallman and Li, 1996) or the number of foreign subsidiaries a company has (Stopford and Wells, 1972).

This variable can explain the relationship between internationalization and governance structures well, because family firms tend to either internationalize less than non-family firms (maybe due to the absence of governance structures to support such growth), and they often choose countries physically (Harris, Martinez, and Ward, 1994) and culturally near, so they do not require excessive additional resources. Zahra (2003) found that family businesses internationalize less, probably due to the lack of adequate supporting structure for doing so.

**Diversification**

Diversification has been traditionally measured using two indicators; SIC codes or Rumelt’s classification (Parada, 2003). Previous studies have shown that both methods return similar results (e.g. Montgomery, 1982), but some authors suggest that SIC codes are more reliable than Rumelt’s classification because the latter is more subjective (Varadarajan and Ramanujam, 1987), and therefore presents internal validity problems (Datta et al., 1991), and is also more time-consuming (Varadarajan and Ramanujam, 1987).

The database used in this dissertation has used SIC codification to classify industries and asked “In which industries are you present?” This allowed me to construct a variable called “diversification” to show how diversified family businesses are depending on the number of industries in which they are present. The more industries in which they are present, the more diversified they are. I do not study whether this diversification is related or unrelated, because this is not the focus of this dissertation, instead I consider whether diversification does affect governance structure development.

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22 SIC codes (Standard Industrial Classification) are used to classify industries using a four-digit code.
7. Quantitative Approach

7.4. Methods

7.4.1. Mokken Scale Analysis

This study applies Mokken scale analysis using the computer program MSP version 3.0 (Moleenar et. al. 1998). The aim of the research is to determine whether there is, and describe, a sequence in the establishment of governance structures in family businesses. Mokken scales allow testing of the scalability of a set of dichotomous items and estimation of the reliability coefficient (Moolenar et. al., 1998).

Mokken scale analysis is a probabilistic, non-parametric scale analysis that can handle three or more rank-ordered response categories per item. To indicate a sequence, results have to show a consistent single sequence. This means that family businesses would have had created A before B and B before C. Only in few instances should it be found that C was created without previously having B and A. A Mokken scale analyzes such a sequential structure (Mokken, 1997; Mokken and Lewis, 1982; Moleenar et al., 1998).

To test the fit of the Mokken scale model to governance structure creation, three measures were used. (1) Hi is used for individual items. (Sijtsma and Meijer, 1992), where the larger Hi (positive values), the more confidence can be assigned to the invariant ordering of items Hij for item pairs, and H for a set of items as a whole. (2) Loevinger’s (1948) scalability coefficient (H) measures the degree to which subjects can be accurately ordered by means of k items (Moleenar et. al., 1998). This means that the larger the H, the more confidence in the ordering of subjects along the latent scale (Mokken, Lewis and Sijtsma, 1986). (3) The Hij coefficient can be understood as the sum of single errors or violations in the deterministic model. For a set of items to be accepted as a scale, it is required that all Hij will be greater than 0.0 and all Hi are greater than 0.30. H will then be greater than or equal to 0.30. If H is lower than 0.30 the scale is weak. If H is higher than 0.4 the scale is strong and higher than 0.5 is very strong.

Thus, according to Mokken (1971) a set of items forms a Mokken scale if:

\[
\begin{align*}
H & \geq 0.3 \\
\text{All } H_i & \geq 0.3 \\
\text{All } H_{ij} & \geq 0 \\
Z & \geq 1.65 \\
\text{All } Z_i & \geq 1.65 \\
H_t & \geq 0.3 \text{ and } H_t < 0 \text{ is less than 10\%.}
\end{align*}
\]

In summary, the set of items that form a Mokken scale is determined by the conditions noted above (H, Hi, Hij, Z).

This method has been widely used in psychology. Sometimes it has been applied to marketing for product acquisition patterns (e.g. Paas, Kuijlen, and
Poiesz, 2005), but in general, few studies have applied this method in management. An exemplary case has been the article of Gooderham, Nordhaug and Ringdal (1999) in Administrative Science Quarterly (ASQ), who applied this methodology to understand institutional and rational determinants of Human Resource management in European firms. More recently, Brewster, Brooks, Johnson and Wood (2014) also in human resource management topics, have used this procedure to determine how various forms of direct involvement can represent components of a broader partnership paradigm of people management.

In this dissertation I assume that the adoption of governance structures can be seen from the same perspective as marketing product acquisition patterns, as it is concerned with needs (efficiency seeking in my case) and prescriptions (legitimacy seeking in this dissertation). The acquisition pattern is similar to ‘sequencing’ (Paas et al., 2005), a concept used in operations research that involves the optimal allocation of production capacity over time.

Following the suggestion of Paas et al. (2005) that acquisition pattern analysis is based on two consecutive steps: (1) the definition of product sets; and (2) the assessment of the order in which the products, within each set, are acquired, I define first the set of items that comprise the governance structure (executive committee, board of directors, family council and family constitution), and then I assess whether there is a sequence in the adoption of these governance mechanisms that comprise the governance structure.

Different methods have been used for a similar purpose, (e.g. Dickinson and Kirzner (1986) used Guttman scaling; Kamakura et al. (1991) used a two-parameter logistic model; Soutar and Cornish-Ward (1997) used a Rasch scale; and Paas (1998) used Mokken scaling. In line with Paas et al. (2005) I chose Mokken scale analysis as the most suitable technique for determining whether these four items form a latent variable and whether they are scalable.

Once a sequence was found, I ran the regression analysis to determine the relationship between the degree of development of governance structures and the eleven independent variables related to legitimacy and efficiency seeking.

### 7.4.2. Regression Analysis

Regression analysis is a statistical technique used to analyze relationships between dependent and independent variables. Multiple regression analysis is an appropriate technique to test the relationship between a single dependent variable and two or more independent variables (Hair et al., 2006). In this particular case, there is a single dependent variable (development of governance structures) and eleven independent variables.

Regression analysis is suitable for metric variables, or those adequately transformed into ordinal or nominal variables (e.g. dummy variables) and it is
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necessary to have decided which one is the dependent variable and which ones are independent (Hair et al., 2006).

Choosing a method for testing the hypotheses can be a difficult task. There are many options for testing hypotheses, and this makes it difficult to find the right one when the dependent variable is a discrete, count (ordinal) variable, which is the case in this dissertation. In general, linear regression (Ordinary least squares) fit all data, but is usually used for continuous dependent variables (Orme and Combs-Orme, 2009). For a count/ordinal variable more appropriate tools exist that can provide a better fit (the model with the data). After reviewing a wide range of possibilities, I decided to use Poisson regression analysis. This is because my dependent variable is a count variable that also contains a certain “ascending” order.

I elected Poisson regression over negative binomial regression, because negative binomial regression assumes that data is over dispersed (Orme and Combs-Orme, 2009) which is not the case in my sample. Other regression analyses also serve for count/ordinal data (e.g. ordered probit and logit models), but these tend to ignore the count nature of the data (Trivedi and Cameron, 1998).

Poisson regression is a way to perform regression analysis, generally used for modeling count data. While Poisson models are more used in actuarial, biostatistics or demography settings, nowadays they are widely used in economics, sociology and political science (Cameron and Trivedi, 1998). The Poisson (loglinear) regression takes into consideration the features of linear regressions, but also takes into consideration the “nonnegative and integer-value aspect of the outcome” (Cameron and Trivedi, 1998, p. 3).

The Poisson regression is expressed as: $\Pr \{Y=y\} = e^{\mu t}(\mu t)^y / y!$, $y=0,1,2,…$

Poisson regression analysis has been applied for the purpose of analyzing the regression between the dependent and the independent variables, and a negative binomial regression and a linear regression have also been run to compare results. The findings were exactly the same, which shows that data is appropriate. To assure the fit of Poisson regression analysis with the data I ran a check for goodness of fit which was correct.
7.5. Analysis and Results: Motivations for Developing Governance Structures

7.5.1. Mokken Scale Analysis: Finding Patterns in Governance Structures, an Exploratory Phase

Data was first worked with SPSS 19.0 to convert all relevant items into dichotomous (dummy) variables yes/no. The variables chosen for the study where: whether companies had an: (1) Executive Committee, (2) Board of Directors (3) Family Council and (4) Family Constitution. This previous work allowed the data to be exported into MSP 3.0 for further analysis of the scalability of the items under study.

Tables 3 and 4 present the results of the conducted analysis.

Table 3: Output MSP Analysis: Main Results

<table>
<thead>
<tr>
<th>Value</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Final scale</td>
<td>1</td>
</tr>
<tr>
<td>number of items</td>
<td>4</td>
</tr>
<tr>
<td>number of steps</td>
<td>3</td>
</tr>
<tr>
<td>Lowerbound:</td>
<td>0.30</td>
</tr>
<tr>
<td>Adjusted Alpha:</td>
<td>0.0056</td>
</tr>
<tr>
<td>Critical Z:</td>
<td>2.54</td>
</tr>
</tbody>
</table>

Table 3 shows that there is “one final scale”, which means that the “four items” included in the analysis (executive committee, board of directors, family council and family constitution) do constitute one single scale. The following three parameters in the table (lower-bound, adjusted Alpha and Critical Z) are statistics, which indicate the level of confidence.
Table 4: Output MSP Analysis: Scalability Coefficients, Loevinger’s H Weighted

<table>
<thead>
<tr>
<th>Item</th>
<th>Label</th>
<th>Mean</th>
<th>Hi wgt</th>
<th>1 Hi= 0.3</th>
<th>Hi= 0.4</th>
<th>Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item3</td>
<td>Family Constitution (Protocol)</td>
<td>0.19</td>
<td>0.59</td>
<td>&gt;</td>
<td>&gt;</td>
<td>12.25</td>
</tr>
<tr>
<td>Item2</td>
<td>Family Council</td>
<td>0.31</td>
<td>0.37</td>
<td>&gt;</td>
<td>&gt;</td>
<td>14.85</td>
</tr>
<tr>
<td>Item4</td>
<td>Executive Committee</td>
<td>0.41</td>
<td>0.42</td>
<td>&gt;</td>
<td>&gt;</td>
<td>17.04</td>
</tr>
<tr>
<td>Item1</td>
<td>Board of Directors</td>
<td>0.53</td>
<td>0.50</td>
<td>&gt;</td>
<td>&gt;</td>
<td>17.16</td>
</tr>
</tbody>
</table>

Rejected items: (due to negative H with one of the scale items): None

Table 4 shows the scalability of the items. Items are ordered in accordance with their mean, which represents the degree of difficulty. The higher the mean, the less difficulty there is. The scale coefficient or Loevinger’s coefficient $H = 0.46 \geq 0.4$, thus condition one applies. The items which comprise the governance structure are scalable with a high degree of confidence. $Hi$ on the four single items is also higher than 0.3 and 0.4 which shows that a high level of confidence can be assigned to the invariant ordering of the items.

The results suggest that there is a sequence of creation of governance structures in family businesses, where the first governance mechanism created is the board of directors, followed by the executive committee, then the family council and finally the family constitution. As the condition applies in each item, it confirms the proposition of the existence of a pattern. It is worth noting that these preliminary results basically show the existence of these governance mechanisms, defined as such, either they are in place or they are not. To what extent those governance mechanisms are developed is not yet shown, however, the next step in the analysis is to look at the development or functionality of each one of these mechanisms. So far the study only shows their existence and the sequence of adoption, but not the role or function they play in the family business.

The cumulative ordering of the items was tested with MSP. The items are ordered according to their difficulty as expressed by the item mean scores. All $Hi$s were 0.40 or greater. As a consequence, the main results suggest that family firms follow a pattern when creating their governance structures. For instance, before having a family council, they have previously or at least in parallel, created the executive committee and before creating the executive committee, they have first formed the board of directors. Finally when writing a family constitution, family businesses have previously established the other three mechanisms.

The results however do not imply that there is no possibility of having, for example, a family constitution without having a family council or a board of directors, but few instances of this are found.
7.5.2. Regression Analysis

This section presents the results and corresponding analysis of the Poisson regression. The sample used for this analysis is made of 918 observations which were valid for the corresponding regression. First of all I present the descriptive statistics, then the correlation analysis and explain the initial results. The following section introduces the Poisson regression and shows the relationship between the dependent and the independent variables.

7.5.2.1. Descriptive Statistics

As previously explained, the study uses a count dependent variable and 11 independent variables. A previous step before running correlation analysis and the Poisson regression analysis was to analyze the variables, for possible significant outliers that could seriously affect the empirical tests (Hair et al., 2006). Table 5 shows the means, standard deviations, and maximum and minimum values of the set of variables chosen for the study.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs.</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min.</th>
<th>Max.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Development of GS</td>
<td>918</td>
<td>1.62854</td>
<td>1.260218</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>2 Legitimacy Seeking</td>
<td>918</td>
<td>0.3856209</td>
<td>0.487007</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>3 Efficiency Seeking</td>
<td>918</td>
<td>10.83987</td>
<td>3.107921</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>4 Family-business logic</td>
<td>918</td>
<td>1.044662</td>
<td>0.66635</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>5 Ownership concentration</td>
<td>918</td>
<td>3.673203</td>
<td>1.278102</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>6 Dominant generation</td>
<td>918</td>
<td>1.400871</td>
<td>0.490342</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>7 Generation overlapping</td>
<td>918</td>
<td>1.66126</td>
<td>0.819367</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>8 Family involvement in mgmt</td>
<td>918</td>
<td>2.275259</td>
<td>0.890882</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>9 values alignment</td>
<td>918</td>
<td>2.759259</td>
<td>0.890882</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>10 Company size</td>
<td>918</td>
<td>1.755991</td>
<td>0.429732</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>11 Diversification level</td>
<td>918</td>
<td>1.117647</td>
<td>0.345234</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>12 Internationalization level</td>
<td>918</td>
<td>1.897603</td>
<td>2.832737</td>
<td>1</td>
<td>30</td>
</tr>
<tr>
<td>r</td>
<td>918</td>
<td>-2.34E-09</td>
<td>1.247965</td>
<td>-2.01434</td>
<td>2.775326</td>
</tr>
</tbody>
</table>

Hair et al. (2006) suggest that worrying outliers can be identified by observing their standard deviations. For samples higher than 80 cases, a threshold of 4 is used to decide whether outliers may be a cause of distortion. In this study none of the variables show a standard deviation higher than 3.1 in a sample of 918
observations. I therefore assume that the outliers are not significantly affecting the results of the test23.

7.5.2.2. Correlation Analysis

The correlation analysis in Table 6 provides the mean, standard deviation, and correlations among all variables. The correlation between variables shows a value below 0.35, meaning that there may be no substantial collinearity among them (Hair et al., 2006). The only correlation that shows a higher value (0.426) is company size and the dependent variable (development of governance structures). Multicollinearity could still be present, however after checking the VIF and tolerance values, the lowest tolerance value is 0.744 and the highest VIF is 1.343, showing no multicollinearity among variables24.

In the correlation analysis we can see interesting results worth comment. From the correlation table we can see that almost all variables chosen for the analysis seem to have an effect on the dependent variable (development of governance structures). The only variable that does not have a significant correlation coefficient and presents a low value is that of values alignment between family members working and not working in the family business (0.065). Diversification level on the other hand, shows a significant coefficient only at p<.05, while all others show a significant correlation at levels of p<.01. Belonging to professional associations and size of the company seem to be more influential in developing governance structures. Three variables show a negative correlation with the dependent variable (ownership concentration, the number of shareholders not working in the family business, and family-business logic).

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23 As an additional check I also created stem leaf diagrams. I ran additional regressions to eliminate outliers that seemed too high. I did not find significant differences in the results, therefore I retained all observations.

24 Given that the results from linear regression and Poisson analysis were similar, I did check VIF and tolerance in the linear regression analysis.
<table>
<thead>
<tr>
<th>1</th>
<th>Development of governance structures</th>
<th>1.63</th>
<th>1.26</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Belonging to prof. assoc.</td>
<td>0.39</td>
<td>0.49</td>
<td>.324**</td>
</tr>
<tr>
<td>3</td>
<td>Family-business logic</td>
<td>10.84</td>
<td>3.11</td>
<td>-1.39** -0.082*</td>
</tr>
<tr>
<td>4</td>
<td>Ownership concentration</td>
<td>1.66</td>
<td>0.82</td>
<td>.210** .095** -0.124**</td>
</tr>
<tr>
<td>5</td>
<td>Dominant generation</td>
<td>3.50</td>
<td>1.17</td>
<td>-1.21** -.100** 0.055 -0.267**</td>
</tr>
<tr>
<td>6</td>
<td>Generation overlapping</td>
<td>1.04</td>
<td>0.67</td>
<td>.141** .112** 0.016 0.022 -0.281**</td>
</tr>
<tr>
<td>7</td>
<td>Family involvement in mgmt</td>
<td>1.40</td>
<td>0.49</td>
<td>-.087** -1.18** -1.17** -.139** 2.25** 0.052</td>
</tr>
<tr>
<td>8</td>
<td>Values alignment</td>
<td>3.67</td>
<td>1.28</td>
<td>0.065 -0.025 0.78* -0.063 0.008 .093** -0.195**</td>
</tr>
<tr>
<td>9</td>
<td>Company size</td>
<td>2.76</td>
<td>0.89</td>
<td>.426** .280** -1.43** 1.87** 1.76** 1.91** -0.086** -0.031</td>
</tr>
<tr>
<td>10</td>
<td>Company age</td>
<td>1.76</td>
<td>0.43</td>
<td>.187** .132** -1.10** .329** -1.31** 1.49** -0.084** -1.33** 0.314**</td>
</tr>
<tr>
<td>11</td>
<td>Diversification level</td>
<td>1.12</td>
<td>0.35</td>
<td>.070* .074* -0.004 0.041 -0.011 0.034 -0.021 0.008 0.039 .083*</td>
</tr>
<tr>
<td>12</td>
<td>Internationalization level</td>
<td>1.90</td>
<td>2.83</td>
<td>.725** .071* -0.051 1.66** -1.44** 0.027 -0.098** -0.012 3.37** 1.39** 0.021</td>
</tr>
</tbody>
</table>

* p < .05, ** p < .01
7. Quantitative Approach

7.5.2.3. Poisson Regression Analysis

As previously explained the hypotheses presented in this dissertation are tested with Poisson regression analysis\(^\text{25}\). The results of the Poisson regression analysis are shown in Table 7.

Results show that belonging to professional associations is positively related to the development of governance structures (coeff. = .317; p<0.01) supporting hypothesis (1), that belonging to professional associations does influence the development of governance structures. Similarly, results show that the family-business logic is negatively related to the development of governance structures (coeff. = -.019; p<0.05) supporting hypothesis (2), that the more family-oriented logic, the less developed the governance structure will be. These two first hypotheses reflect legitimacy seeking, which is related to external institutional pressures exercised by powerful institutions.

In similar vein, the following hypotheses related to family contingent factors are supported: Hypothesis (3) (coeff. = -.055; p<0.05) where ownership concentration is negatively related to the development of governance structures. The higher the concentration of ownership, the less developed the governance structure will be; Hypothesis (4) (coeff. = .076; p<0.05) where later generations running the business is positively related to the level of development of governance structures.

The results demonstrate that Hypotheses (5) and (6) are not supported, as neither have a statistically significant impact on the development of governance structures. Hypothesis (5) stated that the more generations working together, the more developed the governance structure would be. This is not supported (coeff. = .041; p=0.338). Similarly, Hypothesis (6), proposing that the more shareholders not working in the family business would lead to a greater development of governance structure, is not supported (coeff. = .0026; p=0.964).

Finally, Hypothesis (7) is partially supported, demonstrating a positive relationship between values alignment and development of governance structures (coeff. = .063; p< 0.01), where the hypothesis stated that the more aligned were values of family members working and family members not working in the company, the more negatively related they would be to the development of governance structures.

Moving forward to business contingent factors, Hypotheses (8), (11), and (12) find support, whereas Hypotheses (9) and (10) were not supported. Hypothesis (8) proposed that the size of the company would positively affect the development of governance structures, and this was strongly supported (coeff. = .279, p<0.01). Similarly, Hypothesis (11) was supported (coeff. = .0186; p<

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\(^\text{25}\) Given the nature of my dependent variable I used Poisson regression analysis. However, running a test with linear regression analysis in SPSS returned similar results.
0.01), where the level of internationalization would positively influence the development of governance structures.

Surprisingly Hypothesis (9), saying that the age of the company would be positively related to the development of governance structures, was not supported (coeff. = .0414; p=0.577). Hypothesis (10) did not find support either (coeff. = .091; p=0.189).
### Development of governance structures

| Development of governance structures | Coef.  | Std. Err. | z     | P>|z|  | [95% Conf. Interval] |
|-------------------------------------|--------|-----------|-------|------|---------------------|
| **Legitimacy Seeking**              |        |           |       |      |                     |
| Belonging to prof. assoc.           | 0.318  | 0.054     | 5.86  | 0.00 | 0.211 - 0.424       |
| Family-business logic               | -0.019 | 0.009     | -2.19 | 0.02 | -0.036 - -0.002     |
| **Efficiency Seeking**              |        |           |       |      |                     |
| Family contingent factors           |        |           |       |      |                     |
| Ownership concentration             | -0.055 | 0.025     | -2.19 | 0.03 | -0.103 - -0.006     |
| Dominant generation                 | 0.076  | 0.033     | 2.28  | 0.01 | 0.009 - 0.142       |
| Generation overlapping              | 0.041  | 0.041     | 0.99  | 0.32 | -0.043 - 0.126      |
| shareholders not working in the FB  | 0.003  | 0.059     | 0.04  | 0.97 | -0.112 - 0.121      |
| Value alignment                     | 0.063  | 0.021     | 2.98  | 0.00 | 0.021 - 0.104       |
| Business contingent factors         |        |           |       |      |                     |
| Company size                        | 0.279  | 0.036     | 7.65  | 0.00 | 0.209 - 0.349       |
| Company age                         | 0.041  | 0.074     | 0.56  | 0.57 | -0.104 - 0.187      |
| Diversification level               | 0.091  | 0.069     | 1.31  | 0.19 | -0.045 - 0.228      |
| Internationalization level          | 0.019  | 0.007     | 2.65  | 0.00 | 0.004 - 0.033       |
| Constant                            | -0.709 | 0.245     | -2.89 | 0.00 | -1.189 - -0.229     |
7.5.2.4. Summary of Regression Analysis

As shown in the previous section, out of the eleven hypotheses six were supported, four were not supported and one found partial support. The two hypotheses related to legitimacy seeking and institutional pressures were fully supported, as I expected. These findings are in line with institutional theory and corporate governance research, which suggests that professional associations influence the adoption of governance structures and practices (e.g. Greenwood et al., 2002; Melin and Nordqvist, 2007; Parada et al., 2010). The fact that the family-business logic will determine the governance structure of a family business also supports previous studies in the family business field (e.g. Aronoff and Ward, 1996; Carlock and Ward, 2001; Corbetta and Salvato, 2004; Gimeno et al., 2010; Lansberg, 1983).

Of the hypotheses related to efficiency seeking, five were related to family contingent factors and four to business contingent factors. The support found for ownership concentration and dominant generation is also in line with research into family business arguing that ownership type and the generation in charge may determine governance structures (e.g. Bammens et al., 2008). The argument that the more generations involved in the family business, and shareholders not involved in the business, may lead to a more developed governance structure was not supported, contrary to what I expected, and also to what other researchers have suggested (e.g. Gersick et al., 1997; Gersick and Feliu, 2014). Interestingly, values alignment found partial support, where I expected that greater values alignment between those working and those not working in the company may lead to a less developed governance structure, shows the opposite, which seems counterintuitive.

In terms of business contingent factors, as expected, business size greatly influences the development of governance structure, in line with other studies in institutional theory (e.g. Tolbert and Zucker, 1983) and governance in family business (e.g. Miller et al., 2013). Internationalization level has also been found positively related to governance development as expected, an argument often posed in the governance, international business and family business literature (e.g. Calabrò and Mussolino, 2013; Naldi et al., 2012). Curiously, the age of the company, a widely used control variable in most studies, does not have an effect on the development of governance structures. Similarly diversification, at least measured in the number of industries in which companies operate, has no the effect on development of governance structures.
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#### Table 8: Summary of Hypothesis Testing

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Description</th>
<th>Support</th>
<th>Coeff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Belonging to professional associations is positively related to the development of governance structures in family firms.</td>
<td>√</td>
<td>.318***</td>
</tr>
<tr>
<td>H2a</td>
<td>Family-oriented logic is negatively related to the development of governance structures.</td>
<td>√</td>
<td>-</td>
</tr>
<tr>
<td>H2b</td>
<td>Business-oriented logic is positively related to the development of governance structures.</td>
<td>√</td>
<td>.0189*</td>
</tr>
<tr>
<td>H3</td>
<td>Ownership concentration is negatively related to the level of development of governance structures</td>
<td>√</td>
<td>-</td>
</tr>
<tr>
<td>H4</td>
<td>Later generations running the business is positively related to the level of development of governance structures.</td>
<td>√</td>
<td>.076*</td>
</tr>
<tr>
<td>H5</td>
<td>The more generations overlapping, the higher the likelihood of developing governance structures.</td>
<td>×</td>
<td>.0415(NS)</td>
</tr>
<tr>
<td>H6</td>
<td>The more shareholders absent in the company management, the higher the likelihood to develop of governance structures.</td>
<td>×</td>
<td>.003(NS)</td>
</tr>
<tr>
<td>H7</td>
<td>The alignment of values between family members working and not working in the family business is negatively related to the development of governance structures</td>
<td>Partial</td>
<td>.0629**</td>
</tr>
<tr>
<td>H8</td>
<td>The size of the family business will be positively related to the degree of development of governance structures.</td>
<td>√</td>
<td>.0279***</td>
</tr>
<tr>
<td>H9</td>
<td>The age of the family business will be positively related to the degree of development of governance structures.</td>
<td>×</td>
<td>.0415(NS)</td>
</tr>
<tr>
<td>H10</td>
<td>The level of internationalization is positively related to the degree of development of governance structures.</td>
<td>√</td>
<td>.0187**</td>
</tr>
<tr>
<td>H11</td>
<td>The level of diversification is positively related to the degree of development of governance structures.</td>
<td>×</td>
<td>.0915(NS)</td>
</tr>
</tbody>
</table>

*p<0.05; **p<0.01; ***p<0.001; NS=Not statistically significant
7.5.3. Summary and Discussion of Results

7.5.3.1. Understanding the Sequence of Adoption of Governance Structures in Family Businesses

Results found in Mokken scale analysis clearly suggest the existence of a sequence when establishing governance structures in family businesses. Specifically, the sequence family businesses tend to follow moves from business governance to family governance (see figure 8).

![Figure 8. Pattern of Development of Governance Structures](image)

Business Governance: Board of Directors and Executive Committee

When family businesses set up their governance structures, they start with the board of directors. This result is in line with Nordqvist et al., (2014) who suggest different configurations according to the level of involvement of the family in ownership and management, but all the configurations have a board of directors (or supervisory board). Their argument behind the specific governance structure (according to the ownership-management involvement configuration) is that it leads to higher performance (efficiency seeking).

Starting with a board of directors may also be related to mimetic and normative forces. Most legal systems stipulate the board of directors as “the ultimate governance authority in a corporation (Mintzberg, 1983, Fama and Jensen, 1983; Cadbury reports, 1992, 1999; Monks and Minow, 1996, Gomez and Moore, 2009)” as cited in Gersick and Feliu 2014, p. 199).

In this particular geographic context, Spain, the Spanish law for companies states the need to have an administrative body, either sole or several administrators (solidary or joint administrators), or a board of directors, no

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27 (1) Sole administrators are the only ones to have the representation power. (2) Solidary administrators: the power of attorney can be exercised by each one of them, in terms of management, representation of the company in court and out of it. (3) Joint administrators: several administrators act together (at least more than two, not necessarily forming a board of directors). The power of attorney is exercised by two or more administrators, as explained in the bylaws.
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matter the size of the company. While having a board is not compulsory by law, having an administrative body is. In fact, boards of directors are widely recommended and prescribed by practitioners, scholars (e.g. Neubauer and Lank, 1988; Ward, 1991) and professional associations (Melin and Nordqvist, 2007).

In search for legitimacy, mimetic forces play a relevant role in the adoption of the board of directors, because adopting the quoted companies’ structure has become a goal per se for family firms (Gimeno, 2010), for mainly two reasons, to diminish the stigma of non-professional companies (e.g. Chandler, 1977), and to follow a widely spread model of efficiency generally prescribed by several powerful institutions. Normative forces carried by researchers, academics, professional associations (DiMaggio and Powell, 1983), and even laws in each country may push family businesses to start with the board of directors. This sequence, however, and specially the starting point, may differ from country to country given the nature of institutions, rules and norms as well as the culture that may influence the process of developing their governance structures.

The sequence continues with another business governance mechanism: the executive committee or TMT. This first part of the sequence was surprising to me. I expected executive committees to be the first governance mechanism to be created, as it operates at the management level, dealing with day-to-day operations. The explanation for this not happening as previously explained may be related to institutional pressures that make family businesses start with the board of directors.

Given that executive committees are collective management bodies (Gimeno et al., 2010) where the Top Management Team (TMT) gathers to “discuss the developments and strategies to achieve the objectives of the firm” (Hoy and Sharma, 2010, p. 229), it makes sense to create it relatively soon, and as business complexity increases and companies need to face growth and cope with change (Barry 1989), as well as to manage the day to day operations (Gimeno and Parada, 2013), the mechanism is needed to manage the company and it can also serve as a way to develop the management team.

What calls my attention is the lack of studies related to executive committees as a body. Most studies focus on top management teams and its characteristics (e.g. Ensley and Pearson, 2005; Ling and Kellermanns, 2010; Minichilli, Corbetta, and MacMillan, 2010; Nordqvist, 2005; Pieper, Klein and Jaskiewicz, 2008), but very few focus on the decision-making body as such. This important arena, which is explained in Nordqvist and Melin’s (2010) work as the TMT, is not studied in-depth in what it means, what role it plays, how it functions and to what extent it is created and further developed to adapt to the circumstances of the family business. This body is an important element on the professionalization of companies (Gimeno and Parada, 2013).
Family Governance: Family Council and Family Constitution

The final steps to develop the governance structure deal with the family dimension. First the family council is created and consecutively the family constitution is written. One of the tasks of the family council is to develop the family constitution (Hoy and Sharma, 2010), and therefore it may be the last phase in the development. The family council has increasingly become a “must” in family businesses (Melin and Nordqvist, 2007), basically for representing the family sphere, creating an arena where family members can discuss family issues related to the family business (Gimeno et al., 2010). Given the increasing institutionalization of the family business field, practitioners and academics prescribe family councils (Melin and Nordqvist, 2007) and family constitutions as a way to manage the family and separate management from ownership.

The creation of the family constitution as the last item in the process of developing a governance structure may indicate that in most cases this process of writing a constitution is made by consensus. This suggests a process in which the rules are created by consensus amongst the family members who should follow them and not as imposed rules defined by authority.

Having the four mechanisms has been widely prescribed as essential for the creation of effective governance structures (Ward, 1991; Neubauer and Lank, 1998). Therefore, family businesses tend to adopt these mechanisms. It is not clear, however, whether these mechanisms are only symbolically adopted (Meyer and Rowan, 1977; Kostova and Roth, 2002) or if they are developed and internalized (Kostova and Roth, 2002). This is a question that is explored in the qualitative strand of this study.

7.5.3.2. Explaining the Triggers for Adopting Governance Structures in Family Businesses

Some proponents note that governance structures and practices are often implemented due to institutional pressures as we are socially embedded in a broader institutional context (DiMaggio and Powell, 1983). Other studies suggest that efficiency reasons are relevant for developing structures and practices (Katz and Shapiro, 1987; Teece, 1980 as cited in Kennedy and Fiss, 2009) because rational actors scan their environment to make optimal decisions and adopting effective structures. This, in consequence, leads to the diffusion of the most advantageous ones (Armour and Teece, 1978; Chandler, 1962; Teece, 1980; Williamson, 1979). These two strands are seen as irreconcilable.

The results in the Poisson regression analysis suggest that family businesses develop their governance structures influenced by legitimacy seeking and efficiency seeking. This general finding supports the idea that legitimacy and efficiency reasons go hand in hand (c.f. Kennedy and Fiss, 2009; Tolbert and Zucker, 1983). The final model of the reasons for developing a governance structures in family businesses is shown in Figure 9.
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Figure 9. Final Model of Motivations for Developing Governance Structures in Family Businesses.

Professional Associations

The results suggest that professional associations play an important role in the development of governance structures in family businesses. This outcome is in line with previous studies (c.f. Greenwood et al., 2002; Parada et al., 2010),
showing that professional associations are arenas where organizations can interact and socially share what they consider adequate behaviors (Greenwood et al., 2002).

Professional associations prescribe and promote the adoption of certain practices and structures (Melin and Nordqvist, 2007). Professional associations offer training, education, and certification, disseminating established practices (e.g., Ruef and Scott, 1998). Professional associations emphasize the need for adopting family governance (e.g. family councils, family constitutions) (Melin and Nordqvist, 2007), probably given that business governance is usually taken for granted and already prescribed by other institutions (e.g. government, the market).

Belonging to a professional association means also being in contact with other businesses that promulgate similar values and ways of doing things. Family businesses are exposed to and embrace practices and structures that are seen as useful and efficient for the family business (Parada et al., 2010).

On the one hand, mimetic behavior occurs (DiMaggio and Powell, 1991) when family businesses are in search for best practices and/or want to appear legitimate in the eyes of external stakeholders. On the other hand, institutional work (Lawrence, Suddaby and Leca, 2009) appears actors involved in professional associations see the need for change in their family businesses, and supported and inspired by what professional associations promulgate in terms of practices and structures, drive change in their organizations (Parada et al., 2010).

**Family-Business Logic**

Family and business institutions operate with specific norms, values and principles (Friedland and Alford, 1991; Thornton and Ocasio, 2008) influencing behavior of individuals and adoption of governance structures (Gersick et al, 1997; Lansberg, 1983). The results suggest that family-business logic influences the development of governance structures. This finding corroborates Nordqvist and Melin (2002) qualitative study on governance and strategic choices in family firms where they discuss why some family firms adopt radical change and others do not, despite being exposed to the same institutional pressures. They note that family (e.g. values, beliefs) and business institutions (e.g. economic goals like growth) play an important role in adopting and institutionalizing governance structures and processes.

This dissertation finds that the more family-oriented the family business is, the less developed the governance structure will be. This makes sense, since the family logic is based on emotional decisions (Carlock and Ward, 2001). Values are related to taking care of the family members, nurturing them, and socializing them. This means that the family business is seen as an extension of the family where family members are unconditionally accepted (Schuman et al., 2010), and it “nurture family members and advances the family’s well-being” (Miller et al., 2008 as cited in Fiegener, 2010, p.298). As equality is the basis for relationships
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it would be weird to develop governance structures where inequality among family members would eventually flourish in various domains.

Similarly, results show that the higher the business-orientation, the greater the development of governance structures. This makes sense given that the business logic is seen as the opposite of family logic, where “accomplishing tasks, focusing outward on the external environment and looking for ways to exploit change” (Carlock and Ward, 2001, p. 5) is the basis. Profit, growth, meritocracy, and value maximization (Schuman et al., 2010) are closely related to the development of tools and instruments to make the business more efficient. Steier (2003) argues that the rationalities that predominate in the family business may determine the type of agency contracts.

Ownership Concentration

Regarding ownership concentration, the results demonstrate that governance structures are more developed when ownership is more dispersed. This can be interpreted in light of the literature that notes that companies usually owned and managed by founders and families (Claessens, Djankov, and Lang, 2000; Villalonga and Amit, 2006, 2009) need very few governance bodies and mechanisms if they are in a simple configuration (cf. Nordqvist et al., 2014). They tend therefore to use less governance mechanisms (Memili, Esra and Chrisman, 2012) if they have low family and business complexity (Gimeno et al., 2010).

This is fairly evident in the corporate governance literature, where mostly quoted companies with a high degree of ownership dispersion are studied. The usual interpretation is based on agency theory (Fama and Jensen, 1983; Jensen and Meckling, 1976), which states that the opportunistic behavior of the agent (the manager) needs to be monitored and controlled to safeguard the interests of shareholders that are not usually involved in the management of the company, therefore they need to create governance structures. This is also suggested by some proponents in the family business field who note that the existence of agency problems in family businesses is mainly due to altruism (Chrisman, et al., 2005; Gomez-Mejia, et.al., 2001; Lubatkin et al., 2005; Lubatkin et. al., 2007; Schulze, et al., 2001) and the differences in interests, power and information among family members lead to the need of having an effective governance structure to manage efficiently these situations (Neubauer and Lank, 1998; Ward, 1991).

It could be also argued that concentrated ownership is already a governance mechanism (Miller et al., 2013) that serves to monitor the company in the absence of external governance mechanisms (Carney, et al., 2011; Johnson, et al., 2010).

Dominant Generation

Who is in charge matters! My study finds that the later the generation the more developed the governance structure will be. Similar observations have been
found in other studies suggesting that in later generations family businesses tend to incorporate more governance mechanisms than in earlier generations (Cabrera-Suarez and Santana-Martín, 2003; Mustakallio et al., 2002). For instance, Cabrera-Suárez and Santana-Martín (2003) focus on board of directors in the same geographical context (Spanish family businesses) and find that family businesses tend to adopt boards of directors in later generations. Similarly, Mustakallio et al. (2002) find that Finish family businesses put in place family governance (family plans, family councils...) in later generations more than in earlier generations.

Family characteristics change depending on the dominant generation that leads the family business, and therefore the business is affected in several ways (Gersick et al. 1997; Steier 2001). More specifically, the type of governance needed in each generation will vary depending on the generation in charge and its characteristics (Bammens, et al., 2008; Lubatkin et al., 2005; Schulze et al., 2003).

This is a particularity in family businesses, because these organizations may have several generational transitions over time (Morris et al. 1997). As time passes and new generations come on board the complexity of the family increases and need governance mechanisms to support and manage this complexity (Gimeno et al., 2010; Nebauer and Lank 1998; Schulze et al., 2001).

This dissertation expands previous findings by including four governance mechanisms, and showing a specific sequence in creating them. This means that the pattern of professionalization of a company is accompanied by the creation of governance structures that support the development of the family and the business. It becomes more analytic and it presents an important change in the mental model of the family (Gimeno and Parada, 2013).

**Values Alignment**

As previously explained, the regression analysis shows opposite results from the hypothesized. I expected that the more aligned the values of the family members in and outside the business, the less developed the governance structure should be. I hypothesized a negative relationship.

The negative relationship hypothesis was backed up by previous studies who noted that effective governance structures are needed when different stakeholder’s perspectives appear (Freeman, 1984; Ward, 1991). This is not the case when there is alignment of values. The alignment of values represent less agency costs, less conflicts in terms of interests, and therefore less need to develop governance structures to cope with higher complexity. In other words, values alignment reduces the need to manage multiple and conflicting interests or demands because there will be no such differences in interests and no need to “control” for other’s work. A high level of overlapping values of family owners and family business management (inferring alignment of interests) (Pieper et al.,
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lead to fewer formal governance structures such as boards of directors (Astrachan, 2010).

The results show, however a positive relationship between values alignment and development of governance structures contradicting previous findings that focus on single governance mechanism. For instance, Pieper et al (2008) find that when the level of goal alignment is high, there is less probability for family businesses to have a board of directors.

A plausible explanation is that the question explicitly asks for values alignment in terms of business orientation and strategic vision. As Ranson et al. (1980) argue that values guide the way we frame our thinking and decide what is desirable in terms of operations, organization, governance and performance. Family businesses that have clear and explicit strategic visions generally have a powerful board of directors helping and supporting in strategic decision-making. As Sharma and Nordqvist (2008) state, those family businesses with a fit between values and governance structures are more likely to succeed in relation to their performance goals.

Another possible explanation is related to the fact that governance structures may serve to align values, as the family sticks together more frequently and discuss about important topics for the family and the business. Having aligned values may represent a door to create arenas to be together and discuss about the pleasure to create and develop the family business.

Size of the Company

The size of the company, as expected, has a positive relationship with the development of governance structures. Size is considered an important variable in the development of governance structures (Brunninge et al., 2007; Hannan and McDowell, 1984; Ward and Handy, 1988). To manage growth, which at the end leads to increased complexity (Gimeno et al., 2010), organizations need to develop a specific structure to cope with this growth, to generate order, give strategic direction, and achieve efficiency. Similar results are found in previous research who study the role of boards of directors on internationalization (e.g. Arrègle et al., 2012), in survival (e.g. Scholes et al., 2013), or in goal alignment (e.g. Pieper et al., 2008).

Internationalization Level

The regression analysis shows that internationalizing is positively related to developing governance structures. This finding supports the idea that internationalization processes are complex (Sanders and Carpenter, 1998). Governance structures can provide with the necessary resources (Tihanyi, Johnson, Hoskinson and Hitt, 2003; Melin, 1992; Sanders and Carpenter, 1998) to pursue this endeavor.
Studies in family business governance convey in that governance is a key instrument for achieving successful internationalization (Zahra, 2003). More specifically, the way the governance is configured influences internationalization processes (Arrègle et al., 2012; Calabrò and Mussolino, 2013). Previous research focuses on a single mechanism, which is usually the board of directors (Brunninge et al., 2007). This dissertation offers a broader picture showing that different governance mechanisms need to be in place in order to achieve greater internationalization. This is because family businesses have to deal with business and family issues. The need to discuss an investment plan with the family requires a specific arena (e.g. family council) to do so.

7.5.3.3. What Does NOT Explain the Development of Governance Structures

As previously explained, there were eleven variables in the theoretical model. From these variables, seven of them did show a statistically significant relationship with the dependent variable and four of them did not show a significant relationship. In light of the theory the reasons behind this lack of relationship is explained below.

**Generations Overlapping**

Generations overlapping do not show a significant relationship with governance structure development. This result contradicts hypothesis 5, where the literature would support the argument that family businesses tend to develop their governance structures when more than one generation overlaps. This is because over time management and structures change as complexity increases (e.g. Fletcher, 2004; Gersick et al., 1997; Klyver, 2007). Whereas founding generations have a centralized decision making model (Dyer, 1988), implying little or no governance structures, later generations manage the business in teams, participating equally in important decision making and tend to have co-CEOs (Aronoff, 1988). Moreover, the increasing complexity when new family members come onboard (Gimeno et al., 2010) suggest the development of governance structures to cope with different visions, different goals, different interests, from different generations working together (Beckhard and Dyer, 1983).

The fact that generation overlapping has no direct effect on the development of governance structures may be due to the family-business logic of the family as a predominant element when deciding on governance issues. It may also be related to the level of ownership concentration. When shares and decision power is concentrated in one generation (generally the dominant generation), no matter how many generations work together, because decision with regards to governance issues may be taken by the dominant generation and/or the family members with majority of shares.
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Family Involvement in the Company

The positive relationship between shareholders not working in the company and the degree of development of governance structures was not supported. This finding contradicts previous results explaining that the separation of ownership and management (Berle and Means, 1932) requires the establishment of governance structures. Theoretically, when cousin consortiums and family dynasties (Ward, 1991) have control over the family business, the increased complexity leads to a more developed governance structure. The probability of having all family members working in the company decreases by far (Ward, 2008), as “family members will become governors rather than operators” (p. 102). In exploring possible explanations, this may be due to the fact that having shareholders not working in the company is not decisive for developing governance structures, but the amount of family shareholders not working in the family business is.

Age of the Company

Company age was found to be not significant for the development of governance structures. This result is in part surprising as it contradicts previous empirical research where company age is generally taken as a control variable, since it is assumed it will have a direct effect on the outcome (e.g. Pieper et al., 2008; Wilson, et. al., 2013). The literature shows that age (and lifecycle stages) is an important variable in the development of governance structures (Ward and Handy, 1988). Governance structures and practices change over time because of the family and business culture (Astrachan et al., 2002), the generation in charge (Bammens et al., 2008), or the ownership concentration, among other variables. All of them imply a temporal dimension related to the age of the company.

Tolbert and Zucker (1983) found that city age is directly related to the adoption of structures, corroborating previous studies (e.g. Kimberly, 1975; Liebert, 1976; Meyer and Brown, 1977). The rationale behind this positive relationship in the words of Tolbert and Zucker (1983) is that:

“…the formal structure of an organization tends to reflect the historical era in which it originated, since organizations adopt and retain the form that was predominant at that time” (p. 31-32).

A possible explanation for this contradicting finding is that even if time passes since the foundation of the firm, this does not automatically imply an increase in complexity in the family business. For instance, if a family firm decides to stay small, or not to become international, they may not see the need to develop their governance structure. When the family stays small over time (e.g. single children for many generations or pruning the tree), the control and strategic decision-making is in the hands of few family members, who may not feel the need to have need governance structures.
Another plausible explanation can be found in Carr, Haggard, Hmlieleski and Zahra (2010) who find that firm age is a moderating variable for firm survival and firm growth. Analogously, it can be inferred that company age has an indirect effect on the development of governance structures.

**Diversification level**

As shown in the regression analysis, diversification level is not associated with the development of governance structures in family business. This result also contradicts previous findings. For instance, Fernández and Nieto (2005) suggest that family businesses need a more formalized governance structure when diversifying, to cope with complex and decentralized decision making. The study of Fernández and Nieto is related to geographic diversification, which is internationalization, and has shown a positive relationship.

One reason for not showing a statistically significant relationship may be that diversification in this study is measured with SIC codes, considering a company’s level of diversification depending on how many industries they are in. Given that companies in this study are mostly SME’s, they tend to have a low level of diversification. Few companies are highly diversified which supposes the need to put in place a governance structure to help in the process of diversification by providing additional resources usually external to the family business competencies (Galve Górriz and Salas Fumás, 1996; McConaughy, 2000; Schulze et al., 2003b) and probably the need to access external financing (Chkir and Cosset, 2001; Doukas and Kan, 2006; Low and Chen, 2004).

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28 SMEs account for 70% of the sample.
8. Qualitative Approach

8.1. Introduction

To dig deeper into the process of developing governance structures in family businesses a qualitative study was used. Whereas, the quantitative study shows the regularities and the "tip of the iceberg", the qualitative approach complements the picture by opening the black box of such a process. Further exploration of the underlying process of developing governance structures requires a qualitative methodology, given its emerging nature and the newness of the topic. In fact, qualitative research allows more in depth examination of the process and delves into their idiosyncratic character. It is therefore important to glean in-depth information to create possible meaningful explanations (Stake, 1994). In an attempt to address the research questions obtaining insights into such a complex process, I decided to use an interpretive approach (Garud et al., 2002; Lincoln and Guba, 1985). This strategy is most suitable for the purpose of the study for several reasons. The longitudinal study surfaces history, time and events as critical; using open-ended interviews and letting the actors develop the whole process helps in detecting event sequences and unravels the causes that might be intertwined (Lee, 1999). The underlying dynamics are less evident, as are the motivations of actors (Elsbach and Kramer, 2003); this requires openness and free eLaboration.

In the next pages I explain how I see qualitative research. I explain the interpretive approach used in the study, and I proceed to explain how data was collected. I continue with the cases chosen for this particular research and the reasons for using these cases. I introduce in more detail the way I analyzed the data gathered. Finally I introduce the three case studies sequentially.

8.1.1. What is Qualitative Research?

Undertaking qualitative research implies a different mindset than that used to perform quantitative studies, because it includes an in-depth understanding of the phenomenon of study, determining how and why things happen from data that is unstructured. It is about understanding behavior and the reasons behind certain behavior. This requires a small number of cases for in-depth and extended analysis. According to Silverman (2001) qualitative methods are used to determine different things than those that can be found with quantitative methods.

A qualitative approach is appropriate for study processes that unfold over time (longitudinal), and gives us the potential to see the complete picture of a
story (Silverman, 2001). This is exactly what I am researching in this strand of the dissertation. I want to open the black box and reveal the process of developing governance structures in family businesses. Qualitative methods help understand the hows and the whys of social realities (Denzin and Lincoln, 2005, Silverman, 2001). This is digging deeper into the process itself. It is also a suitable method for exploring topics related to the nuances and subtleties that make family businesses heterogeneous, by understanding the micro-processes (De Massis and Kotlar, 2014; Nordqvist, Hall and Melin, 2009) that cannot be captured with quantitative methodologies.

Studying the subject within its real-life context is a central part of this approach (Stake, 1995) given that we are all part of an environment and a context that will in one way or another influence our behavior, actions, decisions and thinking. As Silverman (2001) notes, “qualitative researchers can look at how an apparently stable phenomenon is actually put together by its participants” (p. 44).

8.1.2. A Process Perspective to Understand the Development of Governance Structures

To understand the development of governance structures in the qualitative strand I use a process perspective. This perspective is adequate for revealing the way that governance structures change over time. In the words of Langley et al. (2013), a process approach allows us to focus on:

“…how and why things emerge, develop, grow, or terminate over time…Process studies take time seriously, illuminate the role of tensions and contradictions in driving patterns of change, and show how interactions across levels contribute to change. They may also reveal the dynamic activity underlying the maintenance and reproduction of stability.” (p. 1)

As Langley and Tsoukas (2010) explain, a process perspective is devoted to understanding temporally evolving phenomena. This means looking at phenomena from a dynamic point of view, where time, movement, sequence (Langley and Toukas, 2010), action, events, change, and evolution (Chia and Langley, 2004; Van de Ven, 1992), become the center of attention. This is usually neglected in variance studies (Langley and Tsoukas, 2010). A process perspective prioritizes the activities that make up the final product and “reveals the complex activities and transactions that take place and contribute to their constitution” (Langley and Tsoukas, 2010, p.3). Mohr (1982) suggests that a process model has to do with the final state or cause that is the consequence of prior states, and that necessary causality is also a condition. Van de Ven (1992) adds that there is also the need for a mechanism that triggers those temporal patterns.

Process research enables the study of phenomena from the “how” perspective, opening the black box that is usually hidden and difficult to decipher.
8. Qualitative Approach

As Langley et al. (2013) point out, making knowledge available about how to produce the changes that are often prescribed, is relevant and useful.

In line with my view on reality I believe that combining different approaches help in better understanding the complex phenomenon I am studying in this dissertation. Van de Ven and Poole (2005) encourage the combination of different approaches when studying change processes. I study change from Approach III. This is a strong processual approach, seeing processes as more important than the subject and focusing particularly the role of individuals in the whole process. Additionally, in line with Approach II (cf. Van de Ven and Poole, 2005), which sees processes as significant events in chronological time I try to understand how governance structures evolve over time.

Among other things, it is the unit of analysis that changes, and given the almost ephemeral but existent stability of things, in this case governance mechanisms that comprise the governance structures, I try to move deeper into the chronological order of change to address the question already answered in the quantitative phase. Interestingly, strong process approach proponents already acknowledge that there are indeed discrete events that unfold over time, and that things are stable even if ephemerally, because process has primacy over things (Rescher, 1996). Working with different paradigms at the same time allows us to open up to new ways of thinking and see things from a different angle (Alvesson, et al., 2008).

8.1.3. An Interpretive Approach

Nordqvist, Hall, and Melin (2009) suggest the use of interpretive approaches as a way to “capture the specific complexity and dynamics unique to family businesses” given the heterogeneity of these organizations. (p.294). They note the importance of this method in governance studies. Therefore, using an interpretive approach to understand the development of governance structures in family businesses is approaprite to accomplish the purpose of this study.

In one way or another qualitative research is about interpretations and is defined as such because it needs the interpretation of the researcher (Stake, 2010). The interpretive approach is a research method that relies on the observer (researcher) defining and redefining the meanings of what they see and hear (Stake, 2010, p.39). This approach contains a diverse array of perspectives

29 The interpretive approach can be traced back to prominent philosophers who in one way or another subscribe to this idea of Verstehen (e.g. Marx, Mead, James, Peirce, Dewey, Heidegger, Gadamer, Gramsci, Weber, Husserl, Sartre, Scheler, Merleau-Ponty, Schutz, Barthes, Derrida, Lacan, Geertz, Haraway, Hill-Collins, Anzaldúa, Hooks, Trinh, Rosaldo, Smith, Habermas, Hall, Blumer, Becker, Goffman, Garfinkel, and Strauss).
(critical, qualitative, naturalistic, and literary) (Denzin, 2001), but some common traits exist. The idea of Verstehen from Weber (to understand) (1922/1949) underlies this thinking. The focal point lies in uncovering how life experiences are interpreted (subjective meaning) by individuals (Schutz, 1932/1967). Interpretation is a temporal process where present interpretations are influenced by past interpretations and present interpretations delineate future interpretations (Denzin, 1984).

The objective of interpretive researchers is to gather data from and write about personal experience stories (Denzin, 2001) and to understand complex processes and fine-grained details about how individuals interpret their actions and interactions (Schwandt, 2000). This method relies upon verbal and written expressions impinged with subjective meaning by the individuals under study.

Empathy is a key component of the process of understanding the meaning people give to their actions. Empathy is related to the capacity of the researcher to put themselves in the situation of the acting person so as to be able to understand the meaning of their actions (Alvesson and Sköldberg, 2009). Interpretations come from the interviewees or main actors who tell their story, and they also come from the observer or interviewer, in what is called double hermeneutics (Denzin, 2001). This means that diverse interpretations and understandings may collide (Ricoeur, 1974).

The interpretive researcher does not begin with an empty bag and starts doing research from scratch. In fact previous knowledge or at least different knowledge will inform the way the researcher understands the phenomenon being studied (Alvesson and Sköldberg, 2009). Theory and experience will affect how and what we investigate (Miles and Huberman, 1994; Denzin, 2001).

“Any researcher, no matter how unstructured or inductive, comes to the fieldwork with some orienting ideas, foci, and tools” (Miles and Huberman, 1984, p. 27).

In this dissertation I rely on abduction, which is close to hermeneutics, as the method to interpret the data gathered in the interviews and then demonstrated in the form of case studies. The advantage of abduction over induction (and even deduction) is that it implies going back and forth from data (empirical evidence) to theory (theoretical framework). The overarching proposed theoretical framework is adjusted and refined and the empirical data is expanded and developed (Alvesson and Sköldberg, 2009). I also rely on abduction to go back and forth from the quantitative to the qualitative strand (Creswell & Plano-Clark, 2011).

Abduction starts from empirical evidence in line with induction (Alvesson and Sköldberg, 2009). This is the case in this dissertation. A picture has emerged from empirical data in the quantitative stage and also from the previous interviews of the STEP project, but abduction also takes into consideration theoretical frameworks for reference (similar to deduction), and for inspiration in discovery and understanding (Alvesson and Sköldberg, 2009). Thus:
8. Qualitative Approach

“The research process, therefore, alternates between (previous) theory and empirical facts, whereby both are successively reinterpreted in the light of each other” (Alvesson and Sköldberg, 2009, p. 4).

In fact, different themes have emerged previously from the STEP interviews, which have led to new ideas and theoretical possibilities, however, there is an overarching framework suggesting directions to study the topic.

8.1.4. Using In-depth Case Studies

Case studies are used as a research strategy when researchers want to understand in-depth complex phenomena and their dynamics within single settings in a real-life context (Stake, 1995). Case studies focus on few cases, which can be a single or multiple cases at various levels of analysis, where fine-grained details and full understanding is the goal (Punch, 2000).

Conducting in-depth cases studies helps obtain rich details from within extended periods of time (Stake, 1995) in the day-to-day operations of individuals in their natural setting (Orum et al., 1991). Researchers elaborate on different methods of gathering data such as interviews and observations, among others (Stake, 2010).

The case study method is used in diverse situations. Stake (2005) identifies three different types of case studies: intrinsic, instrumental, and collective. The intrinsic case study concentrates on a single case (individual, group, organization), and explores the uniqueness of that particular case, not looking for generalizations or broader representation. This definition is in line with the second rationale of Yin (2009) for choosing single case studies. The instrumental case looks for insights that can lead to broader generalizations and theory building, where the case itself plays a secondary role, supporting and facilitating the understanding of a specific issue. Finally, the collective case is instrumental but involves the analysis of multiple cases, similar or different, to study a general phenomenon leading to better understanding and theorizing (Stake, 2006), what Yin (2009) calls multiple-case designs.

Following previous qualitative case studies in the family business field, which also focus on opening the black box of a specific process (e.g. De Massis, Frattini, Pizzurno and Cassia, 2015), I build on explanatory or instrumental case studies (Stake, 2005), in order to understand why a phenomenon takes place, explaining causal relationships and developing theory. This strategy is suitable as it allows unveiling a complex phenomenon that involves time, longitudinality, process, and actions and meanings of actors involved in the process (Hartley, 1994). This approach allows seeing the patterns between stability and change, which is a major issue in my phenomenon.

In this dissertation I chose a multiple case research design over a single case study, because I wanted to make comparisons across cases to see similar but also
different patterns in the adoption and motivations for developing governance structures. Following Stake’s ideas, I use collective case study, because my study incorporates three cases. I also design my case as instrumental, because the case is the means for understanding the development of governance structures. Finally I am also defining an intrinsic case, because I analyze each case as unique in understanding the idiosyncrasy of each family business. This is relevant in family business studies, as heterogeneity among family businesses is a key element to understanding family businesses (Nordqvist et al., 2014).

8.1.5. Purposeful Sampling: Selecting Cases

As the study uses a qualitative case-study approach, it is important to establish the criteria by which case studies are chosen for the research (Miles and Huberman, 1994). In this particular case, a purposive sampling method was used to select the cases and respondents. Purposive sampling means choosing cases that will likely show the features and/or processes in which we are interested (Denzin and Lincoln, 1994).

This study uses data from three Spanish case studies. As previously done in exemplary studies in the field (e.g. Steier, 2001), the chosen cases were part of a larger research project. The STEP Project Successful Transgenerational Entrepreneurship Practices) started in 2005 with six founding schools30. The aim of the project is to understand how can family businesses “pass on the entrepreneurial mindset and capabilities that enable them to sustain and create new streams of wealth across many generations”31. The project relied on multiple case study design (Stake, 2005) to gain a detailed understanding of a complex process that involved many theoretical constructs related to entrepreneurial processes unfolding over time (Nordqvist and Zellweger, 2010).

Between the possible cases, these three were selected for several reasons. I have been following these particular cases for an extended period of time, and this has allowed me to gain trust and deep knowledge of them. The topic of study for my dissertation, the development of governance structures was “transparently observable” (Pettigrew, 1990) in the three cases. Convenience prevailed as they were easily accessible and local (Steier, 2001). A trusting relationship has been created between these family businesses and the researcher, especially with the key informants. The advantage to study these cases was that it was possible to gain access to relevant but sensitive information,

30 The STEP Project was founded by Babson, ESADE, HEC, Jönköping International Business School, St. Gallen Universität and Witten. Currently there are 45 universities around the world with more than 100 case studies written and a large quantitative survey launched a few months ago.
31 http://www.babson.edu/Academics/centers/blank-center/global-research/step/overview/Pages/home.aspx
and be able to come back to key informants as often as necessary to collect more
data when needed. Following the companies longitudinally not only historically,
but also in the process of developing their governance structures over the past
nine years, was a key element to understand the process underneath.

These family businesses are in different industries, differ in size and age, and
in generation in control. These differences provided an interesting element for
analysis purposes, because they could reveal different patterns in the
development of their governance structures. As for the similarities they are all
family businesses, according to the definition used in this study, and they belong
to the same region in Spain. Table 9 shows the company profiles.

### Table 9: Company Profile

<table>
<thead>
<tr>
<th></th>
<th>Labor Co.</th>
<th>Fluss Co.</th>
<th>Bau Co.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>Pharma</td>
<td>Tourism</td>
<td>Construction and Energy</td>
</tr>
<tr>
<td>Age</td>
<td>&gt;150 years</td>
<td>&gt;50 years</td>
<td>&gt;40 years</td>
</tr>
<tr>
<td>CEO age</td>
<td>50</td>
<td>48</td>
<td>72</td>
</tr>
<tr>
<td>Generation in charge</td>
<td>5th</td>
<td>3rd</td>
<td>1st</td>
</tr>
<tr>
<td>Size (employees)</td>
<td>500-1,000</td>
<td>&gt;10,000</td>
<td>1,500-2,000</td>
</tr>
</tbody>
</table>

Source: author

### 8.1.6. Data Collection

Following Patton’s (2002) suggestion that using multiple sources of data can
enhance data credibility, I collected data from several sources: interviews,
observations and secondary material (company documents and press releases,
but the most important source of information has been the in-depth interviews
done to family and non-family members, as explained below. Nonetheless, the
use of different sources allowed me to better understand certain aspects of the
puzzle (De Massis and Kotlar, 2014).

Collecting data through open-ended interviews is a common and important
technique in qualitative research. It is chosen because it allows unique
information to be obtained about how actors interpret and experience their day-
to-day actions; it is also useful for collecting data from various individuals and
gaining insights into things that are not directly observable (Stake, 2010).

Interviews are guided fluid conversations, dialogues between the researcher
and the main actors (Hall, 2013), targeted, since they tackle the topic of research,
and insightful because we can draw inferences and explanations from the data
gathered (Yin, 2009). A qualitative interview covers facts and meanings (Kvale,
1996). The in-depth nature of the open-ended interview allows the researcher to
ask broad questions (such as “how did you…?” or “tell me your story”… or “tell me the story of…”) following the line of inquiry, but also allowing for different and new topics to emerge. Becker (1998) notes the importance of avoiding “why” questions that may lead to a defensive response of the main actor. It is therefore necessary to pose friendly, unthreatening questions, allowing the main actor to develop their ideas, actions, interpretations and meanings.

Different Moments of Data Collection

The first round of interviews undertaken for the STEP project was between 2006 and 2008. Data gathered has been translated into case studies that were further discussed with the interviewees, allowing for interaction and enriching iterative conversations. This generated a rich document that was compared with the other two case studies, thus permitting a better understanding and comparisons within and across cases (Stake, 2005; 2008).

The interview process and the cases writing I worked on were the starting point to unveil that family business governance needed further attention, particularly governance practices and structures. This longitudinal perspective allowed for further analysis. The richness of the data also emerged from interviewing many individuals from the same family business.

In-depth interviews usually take place over an extended period of time, because of the open and free elaboration of the main actors in telling their stories and giving their interpretations. They act as informants, more than mere interviewees, as they become more involved in the process. I went back to key informants many times, first to better understand how governance practices changed over time, and then for the purpose of this study, to understand how and why they develop their governance structures (see Figure 10).
Family and non-family members were interviewed. Non-family members included board members, advisors, or top management position members participating in the executive committee. Family members not working in the company were also included in all cases. At least three members of each family business were interviewed. These family members were involved in some way or another in governance. Family members interviewed belonged to different generations. Most of the interviewees had a dual or a multiple role as board members, family council members, and executive committee members. I undertook a total of 18 interviews during 2006-2008 (See Table 10).
Table 10: Profile of Interviewees

<table>
<thead>
<tr>
<th></th>
<th>LABOR (Pharma)</th>
<th>BAU (Construction)</th>
<th>FLUSS (Tourism)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Family interviewees</strong></td>
<td>4th Gen:</td>
<td>1st Gen:</td>
<td>3rd Gen:</td>
</tr>
<tr>
<td></td>
<td>1 President of family council</td>
<td>1 CEO,</td>
<td>1 in top management and executive committee, and family meetings</td>
</tr>
<tr>
<td></td>
<td>5th Gen:</td>
<td>2nd Gen -</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 in top management, and board of directors, and family council</td>
<td>2 in top management, and board of directors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3 in board of directors and family council</td>
<td>not active in FB</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 in family council</td>
<td></td>
<td>part of family council</td>
</tr>
<tr>
<td><strong>Members of the family owning shares</strong></td>
<td>1 of the 4th generation</td>
<td>1 of the 1st generation</td>
<td>1 of the 2nd generation</td>
</tr>
<tr>
<td></td>
<td>5 of the 5th generation</td>
<td>5 of the 2nd generation</td>
<td>2 of the 3rd generation</td>
</tr>
<tr>
<td><strong>Other non-Family members interviewed</strong></td>
<td>1 member of the board</td>
<td>1 top executive in executive committee</td>
<td>1 former advisor</td>
</tr>
<tr>
<td><strong>Generations overlapping</strong></td>
<td>4th to 5th</td>
<td>1st, 2nd</td>
<td>2nd, 3rd</td>
</tr>
</tbody>
</table>

During the first round of interviews, individual meetings were arranged with each interviewee to start the open-ended interviews. The process of interviewing stopped when saturation levels were reached and no new information, or rather very little additional information was added for the STEP framework, which involved governance. As previously explained, in addition to the primary data collection, secondary data was collected from the internet, newspapers, public databases and other sources. This multiple data-collection strategy provided stronger substantiation of the topic. After the first round of interviews which provided with more general information regarding successful transgenerational entrepreneurship practices (looking for the STEP framework), I met key informants in each family firm several times. This was of great importance, given that key informants added important insights and sensitive information that assured the success of the case study.

During 2009-2010 a second round of interviews was undertaken to explore the emergent topic of governance in the STEP cases studied. Meetings were held with key informants to better understand the change in values we observed happened over time. This led to the writing of an article about changing governance practices and the role of professional associations in driving this change (c.f. Parada et al., 2010).

To explore the topic’s dissertation on developing governance structures in family businesses I went back to the three family businesses and contacted the
8. Qualitative Approach

key informants or institutional champions\textsuperscript{32}. I already had vast amount of information about their governance structures, and a fair idea of when they were created, but it was unclear how and why they developed their governance structures. Institutional champions were suitable informants to get this information in more detail, because they were involved in driving this change.

Again I had the opportunity for various informal meetings on different occasions and in different contexts where I could engage in conversation about this topic, sometimes openly and more formal, some other times not so openly and more informal. In a final round of formal interviews (see table 11) with them I explicitly asked about how and why they developed their governance structures.

Table 11. Meetings with Key Informants

<table>
<thead>
<tr>
<th></th>
<th>Labor</th>
<th>Bau</th>
<th>Fluss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal meetings</td>
<td>December 2010</td>
<td>February 2011</td>
<td>January 2011</td>
</tr>
<tr>
<td>(previously)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal interview</td>
<td>June 2011</td>
<td>July 2011</td>
<td>August 2011</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Informal meetings</td>
<td>October 2012</td>
<td>November 2013</td>
<td>November 2013</td>
</tr>
<tr>
<td>(afterwards)</td>
<td>November 2013</td>
<td>December 2013</td>
<td>January 2015</td>
</tr>
</tbody>
</table>

8.1.7. Data Analysis: Interpretive Work

When doing interpretive work, Denzin (2001) proposes six stages related to reading and interpreting the theoretical and empirical material collected:

“(1) Framing the research question, (2) Deconstructing and analyzing critically prior conceptions of the phenomenon, (3) Capturing the phenomenon, including locating and situating it in the natural world and obtaining multiple instances of it, (4) Bracketing the phenomenon, or reducing it to its essential elements and cutting it loose from the natural world so that its essential structures and features may be uncovered, (5)

\textsuperscript{32} According to Parada, et al. (2010) institutional champions are individual deeply engaged in social interaction within professional associations where they get inspiration and support to drive changes in their family businesses in relation to governance practices. Given that institutional champions are able to drive change in governance matters, it is important to identify them, and interview them for a better and deeper understanding the process of institutionalizing governance structures.
Constructing the phenomenon, or putting the phenomenon back together in terms of its essential parts, pieces, and structures and (6) Contextualizing the phenomenon, or relocating the phenomenon back in the natural social world” (p. 70-84).

Inspired by Denzin’s (2001) idea of bracketing the phenomenon, constructing it, and contextualizing it, I followed these steps. The data was analyzed in two phases. The first analysis came from the case studies written for the STEP project and from the original transcription of the interviews. Within-case analysis was performed, allowing for familiarization with the original data, and with that a basis for preliminary theory generation. This step was quite important in the process, given the huge amount of data collected through the interviews with different family and non-family members in each case.

The second phase comprised the construction of case studies specific to this dissertation, integrating the previous data collected with the new data collected explicitly for this study. The notes taken from the various informal meetings with the key informants were revised. The transcriptions of the formal interviews held with those key informants in the second round were aggregated.

Given the abductive nature of my qualitative research, data was analyzed from particular facts and stories looking for general themes or conclusions (Teddlie and Tashakkori, 2009). The process involved, as is usually the case in abductive research, going back and forth from data collection to data analysis and theory, as an iterative process (e.g. Patton, 2002).

Interpretive analysis was performed to see the topics emerging and contrast the theoretical propositions exposed, without neglecting the opportunity to find new or relevant information. I was particularly interested in understanding how actors interpreted their stories and how they constructed a reality. Each case was discussed with the family to lead to improvements and a better understanding of topics that were not clear or that required further explanation. I followed a step-wise analysis, where the first case was extensively analyzed and from those findings the other two cases were analyzed and compared to the first one. The findings were contrasted with the other cases studied.

Interpretive research was used to study this phenomenon, as it helps in generating insights about specific challenges and characteristics of family businesses (Nordqvist, Hall and Melin, 2009) with regard to the process of developing governance structures. By using interpretive research the study is able to shed light on “tacit aspects and more or less unconscious to the individual” (Nordqvist, Hall, Melin, 2009). It has to do with “intuition” and “hermeneutics”, either as “understanding (Verstehen) and re-enactment (Einfühlung)”, or as “truth as an act of disclosure” (Alvesson and Sköldberg, 2009, p.52). By following an iterative process, going back and forth between the theoretical framework and the empirical data, new theoretical insights can be built and extended.

Cross-case analysis followed to look for coincidences and differences among cases (Stake, 2005). Cross-case analysis allowed analysis of the data gathered in order to identify similarities in the cases studied. In doing so, it was possible to
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further investigate issues regarding how and why family businesses developed their governance structures. These results help in analytically generalizing the results of the case studies. Studying multiple cases allows for building a logical chain of evidence (Miles and Huberman 1994) on the basis of the theoretical framework exposed previously.

8.2. Introducing the Labor Family Business

This section presents the Labor family business case study. The story of this family business introduces the main actors involved in the family business, the business model development and the development of governance structures.

8.2.1. Family Business History

The Labor family business is a privately family-owned pharmaceutical company founded in the 1830s. With more than 150 years on the market, it is one of the oldest pharmaceutical groups in Europe. The firm has undergone many changes in relation to strategic decisions, the business model, and governance structures, particularly linked to generational transitions, the complexity of the family and business, and macro conditions. After five generations of Labor family members running the business they have developed a solid company that has faced many challenges leading to important changes in diverse scopes.

As of 2013 the business is run by an external chief executive officer (CEO) supported by a solid governance structure, systems and processes to support decision-making. Most changes have been made between the fourth and fifth generations. The Labor family business moved from a founder-centric management style to a top management team with four siblings and then to a single CEO. The family has developed their governance structure by creating different governance mechanisms to cope with the different issues they had to deal with along the way (e.g. board of directors, family council, etc.). The management team is now divided into seven general managerial areas reporting to the CEO, with five business units and two support areas.

Nowadays Labor is considered a large company with a total of 700 employees. It has become an international diversified enterprise present in more than 150 countries all around the world, specializing in the health sector. With a turnover of 150 million euros as of 2012, 80% of revenues stem from the local market and 20% from the international market. Their level of R&D expenditure reaches 10%
of total sales\textsuperscript{33}. Over the last decade their revenues have been fluctuating, affected by the economic crisis (see figure 11)

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{Figure11}
\caption{Gross Revenues vs. Net Revenues Labor Co.}
\label{fig:revenues}
\end{figure}

\textit{Source: Constructed from various sources- SABI data base, STEP Case and newspaper news.}

\section{8.2.2. The Family}

The Labor family has been actively involved in the family business for five generations. The sixth generation is in its twenties. Family members in each generation, mainly called Alfred, have been in charge of developing this enterprise for over 150 years. In the genogram below (Figure 12) we can see the growing complexity of the family. In the next pages, I introduce each generation and the relevant aspects of each family member who has taken part in the family business.

\textsuperscript{33} Data corresponds to the 2012 period.
8. Qualitative Approach

**Figure 12: Labor Family Genogram**

1830s-1890s: First Generation

Alfred Labor founded the family business in the 1830s at a very young age. As the Catalan tradition mandated, only first born children inherited the family lands. Alfred was the youngest of seven siblings, so he looked for good fortune in the great city of Barcelona, where he started working in a recently inaugurated drugstore.

In fact he started working in the company for another owner. When the owner retired, he sold his business to Alfred Labor who was his trusted employee. The shop was located in a privileged area where its main competitors were also situated. Differentiation strategies ranged from providing better quality to lower prices.

Alfred’s business was growing, and so was his family, as he moved from being single to being married with four children. His business sold many types of goods (food, remedies), but Alfred wanted to focus on pharmaceutical products which required technical knowledge he did not possess. This is when he created a strategic alliance with a pharmacist to cover this gap. Some decades later Alfred decided to continue on his own planting the seeds for what is currently Labor Co.

1890s-1950s: Second Generation

The second generation was composed of three brothers and a sister. In the Catalan tradition women were excluded from business matters because they were expected to take care of their respective families. Only the three boys therefore, joined the family business at a very young age. The eldest son, James, was educated to take over the reins, starting at the bottom to get to know the business from inside out. Peter and Walter, the youngest siblings, were sent to school to
learn about the office, to accompany their brother and support him in the business. Peter took charge of the Laboratory and Walter was in charge of the commercial side. The trio successful due to a clearly accepted hierarchy established between them, based on respect and authority.

Already in the 1910s the Labor brothers created their first Laboratories. They moved to bigger premises, leading to expansion, diversification and distribution of their products internationally. The new focus of the business was reinforced by the product distribution licenses brought to the company.

1930s-1980s: Third Generation

The third generation grew exponentially in terms of family numbers. The three second generation brothers had a total of nine children, four boys and five girls. The tradition of keeping women out of the business continued, which was an important element in reducing family complexity and consequently in the family business. The heir (James) had only one boy (Alfred II), assuring a certain dominant position in terms of shares during the third generation. Following the family tradition, the heir, Alfred II, was sent to one of the drugstores far away to start from the bottom to learn the “métier”, and he also undertook business studies. For Alfred II this was not an easy time to run a business, as he faced the Spanish Civil War and the Second World War. This led Alfred II running the business discreetly, fearfully and with a low profile, and eventually this difficult context shaped his risk-averting character.

Alfred II’s two cousins, John and Steve, joined the company when they had completed studies in pharmacy and sales respectively. Robert joined the company for a brief time until he died. John ran the Laboratory while Steve was in charge of the commercial area. After the civil war, Alfred II assumed the leadership of the company and managed to survive these difficult times until the next generation came on board:

“My grandfather’s period was marked by the fear of war which led to a spirit of not wanting to stand out too much, to be reserved. Those are times that leave a mark forever. My grandfather’s role, rather, was to transition, to keep the business running, which was not easy at that time, until my father was brought in.”

(James II – 5th Gen.)

1950s-Actual: Fourth Generation – First Inflexion Point

The incorporation of the fourth generation, in particular the heir’s active role in managing the company, was crucial for the future development of the business and delineation of what the company became from then on. The fourth generation comprised thirteen Labor family members, five boys who joined the company and eight girls. Maintaining the two traditions about the first born and about women’s exclusion from business matters was instrumental in reducing the family complexity in the family business.
Alfred III joined the family business when he finished his undergraduate degree, and graduated with honors from his doctorate in pharmacy. He was the first pharmacist in the line of direct succession. His educational background was a keystone for the future development of the company.

After some years in the company he decided to launch an R&D Laboratory to produce the company’s own research. Alfred III talked to his father about the project, who was not in favor of it for various reasons. His personal experience during war time did not encourage the idea of change. He did not see the benefits of this new venture. He was not familiar with it. Even though Alfred II, who was still very active in the business, was not convinced about the attractiveness of this new business line he finally gave his son freedom to fulfill his entrepreneurial ideas.

"It was very hard for me to convince my father how important R&D was. My father did not believe in it. In my case it was different; I was very clear about it and dedicated a lot of effort to developing the R&D division. It was not until R&D showed positive results that he supported me.” (Alfred III - 4th Gen).

The Labor company was a pioneer in carrying out their own research in the Spanish pharmaceutical industry. This strategic turn determined the transformation of the business into an important international enterprise. Organizing and ordering the company in terms of decision-making was made through clear division of Labor. Alfred III was in charge of his venture, the R&D Laboratory and Alfred II in charge of running the business.

“In the lab, my father gave me plenty of room, but where he didn’t is in the administrative area; he didn’t let me into the commercial area. Little by little this situation changed.” (Alfred III).

Division of Labor and consensus decision-making policy in terms of strategic changes were critical for the survival of the business given the long periods of overlapping conjoint work in the family business. Despite this, and even though they had been a pioneer in launching such an endeavor, the company did not become a large player in the industry.

"We wondered how it was possible for labs that had been created much later than ours to be ahead of us. They’re younger labs, from after the war, much more powerful. And you ask yourself how this could have happened. They say that as our grandfather was significantly well situated, he maybe at that time lacked enough ambition to say “we’re going to move this thing forward, make it bigger.” (James II- 5th Gen).

A few years later, Alfred III’s second cousins, James, John, Jake and Bern joined the company. The heirs’ tradition of inheriting the majority of shares meant made Alfred III become the major shareholder with 51% of the shares, maintaining a dominant position. In the 1960s the business was growing,
demonstrating profitability, even though the country was suffering an economic crisis. The company invested in a production plant in Latin America. Bern (4th Gen) took over the leadership of the international production plant and moved to Latin America. Two decades later, this plant was bought by Bern in exchange of his shares in the Spanish family business.

Running the business with eight family members of two different generations had become complicated, because the division of Labor started to become blurred, and interests, profiles, skills and expectations were also diverse. Between 1975 and 1985 the third generation of cousins, John, Steve and Alfred II, left the business (because they passed away).

I haven't explained this, but I have had up to 8 Labor family members working in the family business with no defined functions. This situation sometimes generated confrontation among family members and confusion among lower level employees within the organization. (Alfred III).

In the mid 1980s Dr. Alfred Labor III wanted to expand further the R&D business, his core strategic vision. He had already complemented his educational background with a business degree for managers and owners in a prestigious business school in Barcelona. This was an important inflexion point for him, allowing him to see the business from another perspective. He was very actively involved in professional associations, and networking.

At that time, meetings among second cousins were informal, generally linked to family gatherings, and did not tackle the main topics related to strategy of the business, division of Labor, or expectations of each other. The second cousins, who came from two different family branches, had a different vision and expectations for the future of the company. Dr. Alfred III concluded it was difficult to align positions given the differing expectations. He had many options in mind, though some were more efficient than others. With this complicated situation, Dr. Alfred Labor III made a difficult decision, but what he considered the best solution for the family business, to buy out his second cousins' shares. He became the sole owner of the Labor Company in the early 1990s. The fifth generation believes that his decision was determined the company’s future positioning.

My father, with initiative and determination, said “we have to move this thing forward”. If he had not bought the shares, I don’t know how long until my father would have been worn down with conflicts. This purchase represented the company’s survival. Otherwise, the dynamics of many cousins working together would have been complex to manage, eventually leading to a disaster.” (James II- 5th Gen.)

The 1990s was a decade of great expansion for Labor Co. After so many years investing in R&D, the time for harvest arrived. One of their medications became the most popular item of the decade. R&D (own drug development) was complemented by commercialization licenses for Spain. This decade also
represented the opening of an OTC\textsuperscript{34} (over the counter products) division, diversifying and expanding the business.

Given his educational background and his vision for the future of the company, Alfred III began introducing changes in management practices, but he remained focused on the areas to which he had originally dedicated most of his time. He mainly focused his efforts on developing his core business, research. He was also a wise, friendly and extroverted person who was skilled in managing relations with external stakeholders. As such, he was President of Farmaindustria (the association of pharmaceutical firms), had close ties with the government (the industry’s biggest client), and he was actively involved in the IEF (Instituto de la Empresa Familiar) association.

1980s-Actual: Fifth Generation - Second Inflexion Point

Alfred III had six children, two girls and four boys. As usual, the tradition of barring women from the business continued, leaving Tati and Lali excluded. Alfred III was not only self-demanding, but demanding of his job as well. This was a value that the people who knew him always recognized and felt.

His oldest son, Alfred IV, following his grandfather’s wishes, studied pharmacy and earned his doctorate in the same field as had his father. He joined the company in the early 1980s, after working for some years in the US and Latin America. After joining the company he moved through various areas, following the tradition of leaning the business from inside out.

“When I was in Latin America, I worked for a small Laboratory owned by a Catalan, giving me an understanding of what a lab is. It was just the opposite in the US, where I joined the family business I went through various areas. Logically I began in R\&D where I worked for three years. Then I supervised the production department. When the agreement was reached between my second cousins and my father, I took over the Purchase department. My grandfather was in charge of sales and then a second cousin. What I learned is that no matter your training, if there’s a need in the family business then someone should fill the gap. I was there at that time.” (Dr. Alfred IV)

The second son, Bryan, studied business administration and followed a managers program in a prestigious business school. After several years working for a law firm he joined the family business.

“My first choice was to be a veterinarian, but after a year I switched to business studies. After I finished my studies I went to work for a law firm. I was convinced that my path

\textsuperscript{34} Over-the-counter (OTC) drugs are medicines sold directly to the consumer without a prescription from a doctor, and they can be sold either in pharmacies and/or in general stores (e.g. supermarkets, gas stations), depending on the country.
was not in Labor Co. because, I'd failed while studying to be a veterinarian. I thought that they didn't want me here since technical backgrounds were what they wanted most. One day my father asked me “would you like to work here?” and I said “Of course I would.” I remember my father was all by himself at that time and though he had trustworthy employees they were not family members. He perhaps thought it could be useful to ask me to give him my opinion about the possible purchase of two Laboratories and obtain feedback from another source. Possibly his advisor told him to buy and my father said “let’s see what my son says”. Well, I recommended that he not buy them, and so he offered me a job starting from the bottom as a controller in the chemical plant. In the end, I end I ran the chemical division.” (Bryan)

The third son, Brad, also studied business and undertook a manager’s program at the same prestigious school as his father and brothers. After graduating he joined a consulting firm. Brad had the same intention as Bryan, to work outside the family business and develop his own path somewhere else, but, after some years he was asked to join the family business.

“I planned on developing my career in the consulting firm as far as possible. But three years after being there, a business situation developed here. There was a vacancy; there was a problem and a series of actions had to be taken. They thought, “The only person who may know about this is this person,” and they made the decision to ask me to incorporate myself here.

They gave me a managerial role as head of organization and systems which was responsible for all the information systems and organization. Later on I started to assume responsibility for some administrative and financial matters as well.” (Brad.)

The youngest brother, James II joined a law firm after finishing his law studies. After a while he decided to reorient his professional career, as he was not enjoying what he was doing at that time, and so he did an MBA in another prestigious business school in Barcelona. Following a similar pattern as that of his brothers, he gained experience outside the family business before joining it. He was invited to join the family business, as were his brothers, at a pertinent time.

“I worked for five years in criminal law for a law firm. It turned to be stressful job, due to the cases I had to handle; distressed executives who would end up in prison. I decided to reorient my professional life towards the company, and decided to do an MBA. At that time I joined the family business.
My father didn’t make me join the family business, but he encouraged me to. He wanted to have all four of us here, with a sense of equality among us. (James II)

Something that radically changed during this generation was the hold on some of the old traditions. Tati, the eldest sister, was not part of the family business at
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all until recently. She studied interior design, and she did offer her services to the family business as an external professional. In the 2000s her brothers, in their process of rethinking the family business, reflected on some old traditions and decided that the exclusion of women from the business was unfair. With their father they decided to include Tati in the family business as an owner (shareholder) each brother ceding a proportional part of their shares in her favor35.

“My situation is pretty different from my brothers’. I had always known that I would never belong to Labor Co. from a very young age; I was told that I would never be a shareholder or be working for the company. Once my four brothers were working for the firm, my father began to think about the next generation. I’ve never known whether it was my father or my brothers’ doing, because my father always told me “it was your brothers’ generosity”, but at some given moment my father began to consider the possibility of me being a part of the family business as a shareholder.” (Tati)

When the four boys joined the family business they started working in areas that had not yet been adequately covered. Each brother was in charge of a specific area, which represented a good strategy to reintroduce a clear division of Labor, as had been done for several generations. Alfred IV was in charge of sales and institutional relationships; Bryan, joined the production plant, dealing with logistics, engineering and environmental issues; Brad took over administration and the commercial areas; and James II focused on corporate law and human resources. The children had the freedom to introduce changes in their dominant management practices mainly based on trust and self-coordination. Thus, they individually identified several areas that needed change in the family business, because of the type of management practices, the new competitive landscape36 and new regulations, the growing complexity of the business with the introduction of R&D and further diversification and internationalization, and the growing family complexity.

The siblings started working together as a team, supporting each other in the different changes they needed in their respective areas.

“Alfred IV was the first to identify the need for change, but my father did not pay much attention to what he was trying to do, so he needed someone else’s support. When they hired me, he asked me to give him a hand and between the two of us we began to introduce changes in the chemical plant. This story was repeated with my other two brothers, Brad and James II. When they joined us in the family business, they started

35 Lali did not take part of the process because she has been ill for many years.

36 When the brothers entered the family business (the first one before 1990), Spain had recently joined the European Union. This meant an important change in terms of competition, key players-multinationals arriving- being large in size, regulations, etc.
putting order in their respective areas. Among the brothers, perhaps unconsciously, we were defining the strategy of brothers. More for the sake of survival, that is, you were trying to do your job, you could see that there were a lot of problems, a lot of black points, so you wondered what was happening there, you talked with one brother, then another, we would talk amongst ourselves, etc.” (Bryan).

8.2.3. The Business and Business Model Development

The business developed and diversified with each generation. The founder technically bought a drugstore (understood as a business dedicated to selling food products of all types, including pharmaceutical products), where he worked for many years. He was considered the “right-hand” of the owner who had no descendants to inherit the business. During this first developmental stage, the business was simple and the family was small. When the second generation came on board, the new comers decided to change the focus of the business and moved to the pharmacy side, understood as preparing and selling formulas and cures of all types. In later years the third generation joined the family business, and witnessed the rise of the pharmaceutical industry as a global phenomenon growing exponentially after the Second World War. The company evolved from a mere distributor to a producer and/or commercializer of products for different points of sale. These products were sold in bulk format or already bottled.

The inclusion of the fourth generation represented an inflection point in the family business, in terms of decision making, professionalization37 of the operational area and, an important change in the business model. Dr. Alfred Labor III, with a strong scientific orientation, invested heavily in R&D as a mainstream area within the family business. The previous generations had already created a Laboratory, but carrying out the research and development for his own product was the impulse of Alfred III. Slowly Alfred III started to take on responsibility for other administrative areas.

“In the lab, my father gave me plenty of room, but where he didn’t was in the administrative area; he didn’t let me into the commercial area. Little by little this situation changed”. (Alfred III)

The business grew and expanded with the strong that ahd resulted in the R&D Laboratory. Growing internationally and diversifying was also an important pathway (with the production plant in Latin America, the development of molecules in Spain and licensing their distribution abroad). The fourth generation

37 Gimeno and Parada (2013) explain thoroughly the process of professionalization in relation to various levels.
was thus the inflexion point towards professionalization and the development of governance.

When the fifth generation came on board, they started driving change from inside, with the support of the advisory board created by their father. The first important change was the design of a strategic plan which allowed the four children to arrange four general management positions clearly differentiating roles and functions. The second strategic plan was implemented by the fourth generation by following some of the recommendations made by a strategic consultancy firm, the backing of the advisory board and the agreement of their father. The second strategic plan suggested drastic changes in business’ strategy (from developing strategic alliances with other key players in the sector, to entering a new segment- OTC, and closing plants). Some of the recommendations implemented had to with the creation of business units to separate businesses and organize a related diversification, so they decided to keep two main units, chemical and pharmaceutical.

Another important change in the business sphere was the reduction of four general managers to two general managers to lead the chemical and pharmaceutical business units. A long process of conversations and consensus decision making led to choosing two of the four brothers to run each business unit in accordance with their skills, profiles and their capacity to drive the business forward at that point in time. Bryan took over the chemical plant and Brad took over the pharmaceutical business. The other two brothers continued in their jobs related to functional areas.

After some years, the four brothers were ready to apply new changes to adapt to the changing environment and reinvent themselves to survive over time. At that time, Brad was managing 90% of the business and Bryan the remaining 10%. They saw the need to move from a co-CEO leadership model to a single CEO leadership model. This was another long process of discussions and in-depth conversations in order to reflect upon who was best suited to take on the lead and take the business to the next level. The possible options included a family or a non-family member. The strategic changes the company was facing required someone with expertise and deep knowledge of the company and the industry, which is why they believed that someone from the family had to take that position, and the speed of reaction was of high importance for developing the new strategy and facing the upcoming challenges.

The board of directors played a critical role in advising the brothers in terms of what direction to take. It was the brothers, however, who were engaged in making the decision about a non-family vs family CEO and to whom the job would fall if it was a family member. An independent member of the board

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38 As it will be later explained the advisory board played a key role in the development of the first strategic plan designed by the fourth generation.
explained how the process went, and how the four brothers managed this challenging situation in relation to the further professionalization of the family business:

After that, they went through an internal family process, at which at one meeting they said, “Listen, we’ve gone through the process, we’ve thought about it and we really believe that the person who has to be CEO is Brad. The rest of us support him and we’ll step aside from operations. We would like you to help us see how we have to do it and what we have to do first, give the organization a clear message and, second, what we have to do so as to not interfere”. (External independent board member)

“We decided that it had to be someone from the family because it was a time for strategic change with an important purchase. It was not a good time to hire an external person with no experience. We were advised throughout by the Board of Directors. Later, we thought a family member would be more committed, and had enough knowledge of the company. In any case we saw it as an intermediate step because some were more in favor of someone external, other brothers were more in favor of a family member. We reached the agreement to appoint a family CEO as a transition until we reach a more mature and more defined situation, with an already established strategy, then we could look for new formulas. (James II)

This process was accompanied by two changes which occurred at the same time. Alfred III abandoned management, resigning from the board of directors and retained a role only on the family council. At the same time, the member of the board with the greatest relationship skills also left the board of directors to join the family council. This was supposed to help focus the council more on business than family dynamics, as had been the case up to that point.

In relation to the business model the family also invested in a new Laboratory to separate the group’s Laboratory, and opened its ownership to private investors. The new company was supposed to focus on developing molecules during their initial development phases (drug discovery) to later cede the clinical trial phases (those requiring a great deal of investment) to larger Laboratories, although not ceding its distribution in Spain. This endeavor was sold after some years of the launch.

The fifth generation has thus been very active in changing the business model, evolving towards related diversification and particularly reinforcing OTC and generics. They also launched a spin-off of their main R&D activities, which they eventually sold. In the last decade they gave a new direction to the company focusing mainly on OTC products. They also introduced important changes in terms of governance and professionalization.
8.2.4. Developing Governance Structures

Authority, and organizational and management structures in Labor Co have evolved over time. Depending on different factors they have evolved to adapt to the different situations they had to face at different points in time.

8.2.4.1. 1830s-1980s - The Owner-Manager Model

The organizational and authority structures have evolved over time. The old traditions based on females exclusion from the business and first-born rights helped in reducing the complexity of the family (fewer shareholders) and concentrated power in the hands of the first-born by means of hierarchy, respect and the majority of shares (51%).

Over three generations the family business was run by an owner-manager, who took the decisions and decided how to move the company forward. Despite this founder-centric model, in the first generation Alfred I had a 25-year co-management period with his pharmacist partner. In the second generation, James I repeated the owner-manager model, owning 51% of the shares while his two brothers, Peter and Walter, had the remaining 49% of the shares equally split. Decision-making was in the hands of the three brothers, although with the primacy of the eldest brother. Division of Labor was clear and in accordance with the respective skills. The premise that they were not equal prevailed, given the “first-born” figure. In the third generation, the old traditions continued, leading to the same management and governance model. One of the cousins (and branches) kept the majority of shares and the other branches respected the hierarchical position in terms of decision-making and ownership. The fourth generation started with the same premises, but differences in interests, skills and
motivations varied, leading to a more complex situation that required a change in the governance model prevailing after four generations.

8.2.4.2. 1990s - Actual: The Development of a Solid Governance Structure

... There should be someone that deals with all this, someone that drives change in the family business, adapt and develop structures, and makes the others reflect... at the end is the group who decides, right?” (James II).

Developing governance structures has been a long process in the Labor family that formally started in 1999 and continues (in the year 2015). The change was driven first by Alfred III, the sole owner of the Labor company, who saw that his children were coming on board and that there were many challenges ahead. James II took the lead in this regard, the youngest sibling of the fifth generation who is a lawyer, has an MBA from a prestigious business school and is actively involved in different professional associations, following some of the steps of his father.

The process of developing governance structures has been lead by two main actors. First Alfred III adopted an advisory board to advice and give support in decision-making and then he wrote a family constitution to create order in the family business, given the recent arrival of his four sons. He found support first in a close friend, who helped him to set the advisory board, and then in the family business consultant who played a role in the inclusion of the family constitution in the governance structure.

James II later took the lead in driving the process of change, adopting governance structures that could help the four brothers to move the company forward and continuing to put order in the family business, given the increasing complexity they had ahead of them. James II recalls:

“I found myself well supported by my father when I started with this process. I myself would not have been able to do it without his help. But of course, it is the group that at the end decides. My role was more to say ‘hey maybe we should think about this’, and insisting on moving forward ‘let’s do this and that’... you know like a hassling fly... On the other hand it has been a role that has passed unnoticed, which is good”.

The Advisory Board

At the end of the 1980s Alfred III was running the family business after his father’s death and the acquisition of his cousins’ shares. His eldest son was already on board. His educational background was particularly related to business and his open and reflective personality, listening to others and participating in professional associations, triggered in him the need to create a structure to support and help him in his decisions regarding the family business.
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“My father felt he was all by himself leading the company, even though one of my brothers had already joined. It was his leader’s position that required some help and support. Hence, particularly coming from a business school and listening to people, he felt the need to find someone who could advise him and support him. He felt the need to create a structure that could help him in governing the company.” (James II)

“I remember, I started thinking about the situation I was facing with regard to the business and also to the family. New opportunities and new challenges were about to arrive with Spain joining the EU. The rules and regulations were about to change, and the market was opening. At the same time my children were finishing their careers and my eldest son was recently incorporated in the business. I was alone at the top, and I really thought… ‘I think I need people that can help me with this new competitive environment and with the incorporation of my children’. I also think that what I learned at the business school made me aware of the different tools I could use to help me at the top. The program was for general managers, so they explained things about decision-making, boards, and stuff like that…”

In 1990, therefore, Alfred III decided to create a governance structure that could advise him in diverse topics. There were no structures at all in place in the family business, ad-hoc decision-making was made by the sole-owner (Alfred III) based on intuition and experience, and relationships were based on trust and self-organization. Alfred III had already experienced the difficulty in managing diverse interests, profiles, skills and motivations of the many family members involved in the management of the business, with his cousins and uncles. He was aware that he needed help to make decisions, but also for the future incorporation of his children in the company.

The lack of structure led him to create what he considered the simplest and more useful structure for the situation he faced at that moment: an advisory board. Alfred III set an advisory board with the help of one of his closest friends, with whom he had been on the business course. They both recruited the other members. They chose people he knew well, close friends of his, and well-recognized in their areas of expertise. The advisory board was composed by a group of people with experience in the macro-environment (EU Commission), public sector (Spanish government), large multinationals (e.g. Telefónica), and chambers of commerce.

My father thought ‘I have nothing at all in place’. So he started with the simplest body, an advisory board. He did not want to complicate things too much so he chose his close friends to be part of this arena. Basically he created it because he needed someone with whom to contrast his ideas and decisions, someone to advise him on where to go, what to do, what to not forget, what was happening outside in the world. For instance at that time we were recently integrated into the EU, so the advisory board was instrumental in telling him what he should know and what could be applied to the company” (James II)
The advisory board was set up with quarterly meetings where the CEO informed the advisors about what he had done and which direction he was taking. The role of the advisors was to raise awareness of possible flaws, potential problems and think of future planning on all fronts. The advisory board was already quite formal in terms of minutes, records and agendas.

The advisory board remained intact for ten years, playing a role in many aspects related to the future development of the company in terms of professionalization, strategic changes, and also regarding the incorporation, leadership and pathways of the next generation. This body was the driving force for implementing changes in the family business, as advisors who gave their opinions and made suggestions, but whether or not, and how to implement things depended 100% on Alfred III.

“… they have been very active in pushing for systematization, rigor in decision making, and professionalization at various levels. My father came from an intuitive decision making mode. For instance they [the advisors] said ‘you need to create a clear and written salary policy, a plan with objectives…” (James II)

With the advice of this body, Alfred III created four areas for his four children. The advisors also raised awareness of the need to think about the succession process, and the need to begin this process as soon as possible. This was key in making a smooth transition for Alfred III until retiring and leaving the company management in his children’s’ hands.

The Advisory Board has been very important for the succession process. They insisted on telling my father not to have the four brothers doing a little bit of everything. They advised him to systematize, to distribute a little and to come up with an organizational diagram. They insisted on the need for a strategic plan. The need to begin sharing responsibility and giving his boys more responsibility. He has always been very generous and gave us concrete issues to deal with and let us get on with it, and we talked about everything among us. He was able to see all this and because the board had told him, that generational change had to take place. (James II)

The advisory board also triggered the first written strategic plan designed by Labor Co. James II was in charge of the plan’s coordination, supported by his brothers and the management. They began to put a preliminary diagnostic process of the company’s situation into practice and to define future plans.

“My brothers and I have been able to work together to change things in the company at many levels. We meet regularly to discuss about the issues we faced in our day to day activities, and we saw the need to change things. Probably they chose me to lead the changes because I was the one that was more in contact with IEF and from each workshop or conference I attended came with new ideas, best practices, and I recently finished my MBA and had a family business course that emphasized the need to have structures, and so on. We were lucky because my father gave us freedom to do things,
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and he was knowledgeable, because eh also had a business background. We were perhaps also clever enough in choosing areas in which he was not interested”. (James II)

This strategic plan delineated the fifth generation’s thinking and future projects. The strategic plan permitted the creation of a clear division of Labor based on skills and interests, into general management positions (purchasing and institutional relationships (Alfred IV), production, logistics, engineering and environmental issues (Bryan), administration-finance and the commercial area (Brad), and human Resources, corporate law and research (James II).

…So far we had strategic plans, but they were all informal and not written. They were all in my father’s head. The advisory board has been quite instrumental in helping us to develop it [the first written strategic plan]. The fact that the advisors came with different profiles (a finance guy, an economist working in the EU commission, a lawyer part of various boards of directors in different companies), contributed to complete advice” (James II)

The creation and development of the advisory board was the first step to creating other elements of the governance structure. The advisory board triggered the initiation of a process to create a family constitution and a preliminary model for the Family Council. Similarly, the advisory board triggered the creation of the board of directors in detriment to their own existence, as they were redundant with the creation of the board of directors.

“So, how did the advisory board disappear? It was the advisory board itself who recommended that we further develop our governance structure and create a new governance body. They told us we needed a board of directors, something more structured, more professional, more formalized, more a decision-making body, and not simply an advisory one. They themselves saw the need for this change [of replacing an advisory board for a board of directors].” (James II)

“Everything we did was thoroughly discussed with them [the advisory board], in terms of what type of governance mechanism, what type of board members… So when we hired the three new independent board members, the advisory board was dismissed and we started working with the board of directors.” (James II)

The Board of Directors

As previously noted, the board of directors was created in the year 2000 as a result of strategic changes proposed by the brothers. At the same time, they developed the second strategic plan with a large strategic consultancy firm. The board thus came from reflection between the advisory board and the four children, and the new strategic plan for 2000-2005.

“My brothers and I identified the need to ask a consultancy firm for a plan collectively; each one in their area foresaw problems were on the way. It all stemmed from the
developing threats; the first plan hadn’t been enough. We could see storm clouds on the horizon and the plan that we had prepared was too the status quo.” (Bryan)

The strategic plan basically delineated two main areas for action. One was to change the internal structure of the company. Profiting from the new business plan and triggered by the advisory board, the 5th generation brothers proposed substituting the advisory board with a more executive board of directors. The board of directors thus replaced the advisory board, since they considered that the advisory board already accomplished its mission, which was to accompany Alfred III during his sole-owner tenure. The advisory board played a very important role in helping to manage the company and leading it to where it was at that moment, but it was not sufficient to guide Labor Co into the next phase of development. James II also acknowledges that:

“The advisory board not only functioned as a support governance mechanism for my father’s lonely leadership time, but we later realized it also served as a bridge between the two generations”. (James II)

After almost a decade working in the family business the four brothers gradually assumed more responsibilities and realized they needed a new governance mechanism, different to the one they already had, which was particularly adequate for their father’s needs, to cope with the new challenges that were ahead. The advisory board was mainly conceived for, advising the founder. Now the next generation in power needed a body that could guide them in decision-making.

“For the new stage we were to face we needed someone who could guide us as team of four brothers, which is different than the founder situation, in our decision-making processes. We needed something a little bit more professional. Not so much someone coming and just giving their opinion, but a more developed governance body. The idea was to adapt the governance body to the brothers’ leadership style.” (James II)

The board of directors was created in the year 2000 and had a high professional profile, following the prescription of the consultancy firm of including external non-family members. The board in the first place was composed of Alfred III, the four fourth generation boys (Alfred IV, Bryan, Brad, James II) and three independent board members. Based on the strategic plan for the next five years and the challenges they had to face given their objectives, the board members were proposed based on their expertise. One provided knowledge and vision about food distribution and institutional relationships; the second came from consumer goods and operative management, and the third came with a background in large multinationals and corporate operations. In any case the three contributed with international experience in large firms.

After the board was implemented strategic decisions were still taken independently of the board for around two years. In other words, the board of
directors was still playing the role of the advisory board. In any case it was not yet functioning in the way for which it had been created. James II recalls:

“The board helped us in putting the strategic plan into action, but it was us who decided what to do and where to go. At that time the decision regarding changing the business model, this moving towards diversification, and professionalizing the company by placing business units and choosing a family member was our separate reflection, but accompanied by the board’s support”.

Little by little the board started to gain shape and the independent members were quite efficient in delivering their roles.

“We’ve surrounded ourselves with a board capable of making decisions. They are not the type of people who are going to tell us what they think we want to hear. They are not “yes men”. They’re here because they like the project.

The family was convinced this was the pathway to follow in terms of governance structures. Having a professional decision-making body would help in developing the company further. This is why they created a highly executive board, to continue systematizing and professionalizing the family business, and making strategic decisions.

The board of directors started as a formalized and well developed body with monthly meetings, where pending issues were brought up to make joint decisions. The profile of the independent members was appropriate for achieving the high degree of decision-making and strategic thinking the family was looking for. Independent members were thus chosen via outsourcing their recruitment. This was important for two reasons, the first was to avoid having people representing a single brother. The second reason was because headhunters had more access to high profile professionals.

Even though the body was well formalized, the process to become fully institutionalized took some time because the family needed to adapt the governance mechanism to their own needs at different points in time.

“…well… ehhh, it [the board of directors] began quite structured and developed, with independent members, planned meetings-around 10-11 per year, plus additional follow up meetings… However, what happens is that you make your way as you walk, right? In the process you see that you need to adapt it to the circumstances.” (James II)

The board of directors evolved over time in several ways. As previously noted, the first board of directors was composed of Alfred III, Alfred IV, Bryan, Brad, James II and three independent members. Having Alfred III on the board generated different dynamics than without him attending the meetings. Alfred III was used to having an advisory board. Changing his mental model towards explaining and explicating strategy was not easy for him. When the family council was well structured Alfred III moved to the family council and left his chair in
the board of directors. The new board was composed of the four brothers and the three independent members.

When the family started the process of writing the family constitution\(^39\), some of the old traditions and values were questioned and changed. The exclusion of women from the business was one of them. Through that process Tati, the eldest sister, was incorporated to the board of directors, and of course as a shareholder, in 2007.

“When I became a shareholder, I was first part of the family council, but the family council did not really work, so I talked to my youngest brother and told him I wanted to participate temporally in the board of directors instead.” (Tati)

Tati entered as a family member, but she had never worked in the family business, nor had she a business background. This somehow also changed the dynamics of the board.

“The idea of incorporating my sister in the board of directors had to do with the fact that the family council was not operational at all, it did not work. So we thought maybe it is good that she attends the board of directors meetings so she can become informed and get to know the company. But of course this also conditions the way we handled the board of directors”. (James II)

The board of directors has recently changed again (as of 2013), with the incorporation of the external CEO. The role of the board of directors has changed from monitoring a family member, to supervising a non-family member. According to James II:

*In theory monitoring a CEO, either family or non-family member, is the same for the board of directors. The reality is that it is not the same for us family board members, nor for independent members who have to monitor a family CEO, compared to a non-family CEO. It feels like a different role.*

**The Executive Committee**

The executive committee has always existed informally, since the first generation started the strategic alliance with its pharmacist partner. Informal conversations about the day-to-day operations were held in aisles, when eating together or knocking on the door of another. In the second generation, the three brothers were also constantly meeting to make decisions about the business operations and even strategic moves. They worked as a top management team, even though

\(^{39}\) This is more thoroughly discussed in the section dedicated to the family constitution.
8. Qualitative Approach

the first-born had primacy over the others. These informal meetings continued over the next generation of cousins in the third generation, where the top management team, with a visible CEO, continued, discussing operations issues and strategic agendas in any casual meeting.

Visible changes in this regard started with the fourth generation. The formal adoption of the executive committee as part of the governance structure took place around the year 1990 with the adoption of the advisory board. The advisory board stirred the systematization and elaboration of processes, thus the professionalization of the family business. The discussions between managers needed a specific arena for dealing with the day-to-day operations. This became especially clear when the first strategic plan was launched, where clear and explicit objectives were set and needed to be discussed regularly. In 2000, when the board of directors was set up, the executive committee was also highly formalized to clearly divide strategic from operational decisions.

“We have always had an executive committee, always highly formalized. It is below the board of directors. There has always been a top management, sometimes a management team, some others a sole CEO. Depending on either the top management team or depending on the CEO, the executive committee has been there…”

This governance mechanism has also evolved over time, adapting to the needs of the family business. As James II notes,

“This governance body has evolved over time considerably. It depends on who is above. It depends on the type of leadership you have above. It is not the same having four brothers occupying general management positions, or having the sole CEO.”

In 2000 the executive committee was comprised of Alfred III, the four brothers and an executive who was Alfred’s III trusted advisor. At first this arena was created so Alfred III could share the day-to-day of the business with his children, as they gradually took over more responsibility in the management of the company.

With the first strategic plan, that defined four general management positions, and Alfred III progressively stepping back from the day-to-day operations, the executive committee evolved into a more two-way communication arena, where the general managers listened and shared, and the executives shared as well. The trusted advisor retired and no longer took part in the committee. The governance body was composed of the four brothers and the executives of the company.

“At the beginning the executive committee was composed of 12 managers who regularly met with the four brothers who occupied the four general management positions”. (James II)

When Brad took over the CEO position the executive committee changed again.
“When my brother took the CEO position he changed the design of the executive committee in light of the new business structure we created. He placed seven managers and himself in this arena. Then it changed again when we moved from a family CEO to non-family CEO.” (James II)

The evolution continued when an external CEO was named. He changed the structure in accordance with the new business model and design of the company. The executive committee has since the beginning been formal and well organized. The family decided to have a participative executive committee where the top management team or CEO listens to the other managers and they share what is going on in their respective areas. They meet regularly every fifteen days.

The Family Council

The family council was the result of the written family constitution, started in 2000. The family constitution was the document that stated the family needed a space where the family and shareholders had a place. Dr. Alfred III and James II belonged to diverse professional associations (e.g. Family Business Network, Instituto de la Empresa Familiar, the Family Firm Institute), where they received constant information and recommendations about the usefulness of having a family council. This was also an important trigger for putting in place such a governance mechanism.

“The consultant [family consultant] was persuasive about the need for a family governance body, given that we already had the board of directors in place for strategic issues.” (James II)

The family council was adopted around the year 2002 with the idea of incorporating Tati, Alfred III who would gradually retire from management, the mother, and any other family member from the fifth and sixth generations. This family council did not work at the beginning for various reasons. Among other things, it overlapped with the development of the board of directors, where almost everyone was involved. The mother was not really interested in taking part in business issues. The sister was not familiar with the business, so she felt she was lost. James II explains that,

“We created a family council which had certain functions and roles. We did meet from time to time and it worked, but.....the reality is that it is very difficult to make a family council work. Especially when you have a powerful board of directors where almost everyone is involved, except for one, in this case, my sister.... Another reason for it not working is perhaps related to the fact that it was artificially constructed, right?”

The family council started to work as such when the decision was made that Dr. Alfred III would retire from the management side. The family council represented an adequate governance body, and it started to take off, when the
arena became relevant for inclusion of the former CEO in the decisions and progression of the family business run now by the next generation of brothers. This was where Alfred III was kept well informed about the evolution of the family business and participated in important decisions. Even so, it was a difficult endeavor to make work.

With time the family council evolved towards a more sophisticated governance mechanism, where the four brothers, the sister, the father and an external member take part. In 2005 the external member was incorporated when the family decided to empower the family council given the recent retirement of their father from management. The idea was to formalize the family council by incorporating an external member to help it gain discipline, and rigor and to eventually make the family work more as professionals within the domain of family business issues.

One of the main problems of the family council at the beginning was that it was too familiar.” (James II)

When the family council was more formalized and the family was seriously involved, they worked on redefining the rules of the game, by rethinking the family constitution. The latest change to the family council was again due to the need to adapt to a new situation in terms of family and business complexity. This began when the family passed from the co-CEO model to a sole family CEO model. The other brothers left management and moved upwards to the board of directors and the family council. More recently the whole family has retired from management to become only shareholders, leaving the reins to a non-family CEO. By doing this, the family felt the need to potentiate a space where they could meet as owners, this was the family council.

So far the family council has been conceived for family members who possess shares in the family business, and is the place where they meet to discuss business and non-business issues. Business issues include monitoring the right functioning of the board of directors, or incorporation of family members into the company. Non-business issues tackle topics such as family investments, foundation, and philanthropic issues.

The sixth generation participates in periodically organized meetings in the company but outside the family council. When Alfred III was present in the management, he used to take the lead in telling the grandchildren stories related to the family business values. Thereafter, Brad and James II were in charge of explaining operational issues related to the business. These parallel family meetings were created around the year 2007, when some of the oldest children started university degrees.

Now the family has acquired experience in developing governance structures. They found the institutionalization of the family council particularly difficult, but now they are working towards making it more functional in relation to their current needs.
“I tell you already, this [the family council] will evolve again. When we first started it was very difficult to make it work, because we had it because everyone told us we had to have it. But probably it was untimely. Now we have more experience and we need it because all of us are there and not in management anymore. Besides, we want it to become more practice oriented, where tasks are assigned and we all actively participate in it.” (James II)

The Family Constitution

The family constitution was written for the first time in 1999, particularly promoted by the family business consultant. The family started a process of dialogue, discussion and consensus to elaborate a set of rules they deemed suitable. For the first time in Labor Co history, the members of the family thought about it and reached agreements about how they wanted to organize themselves in the next generation.

The writing of the constitution was also the result of an increasing awareness and sensitivity among family business owners through interaction with the professional associations which influenced Alfred III. At that particular time, a family constitution had become a must for family businesses, because it represented a great tool to give order to the typically disordered family business. Similarly, James II who was actively involved in professional associations and undertook management studies focusing on family business management, was familiar with the idea of family constitutions and their beneficial properties for the family business. All this led to the adoption of a family constitution to theoretically create order.

“We saw the benefits of the family constitution, but we were highly influenced by our external environment such as the associations and networks we interacted with, and evidently the family business consultant played a critical role in convincing us. But even if we heard about the benefits of it, if you don’t see the need, you may not really implement it. In any case we really saw the need. In fact, thanks to the family constitution my sister came on board as a shareholder”. (James II)

Another important element regarding the need for a family constitution had to do with the fact that Alfred III bought his cousins shares, his father had recently died, his eldest son was already in the family business and the other three children were about to disembark. This required a certain level of rule explication in various domains. What was clear is that the family constitution had much to do with social pressure to adopt one.

“The need to write it [the family constitution] was fairly evident given the increasing complexity of the family. But definitely my father was highly influenced by the social need of having a constitution, not for the sake of just having it, but because he understood the benefits it could bring to the family business. So he said we will put things on paper.” (James II)
“When we wrote the family constitution I saw this was a good tool for the family because it helped in creating order. It was not because my children were disordering anything, but I saw that this could help and I’d do it.” (Alfred III)

The family constitution elaborated in 1999 specified many aspects of the family (such as the incorporation of the sister as shareholder, or the four general management positions). In the process of developing this constitution the four brothers debated intensely about their interests and profiles and they reached agreements about how to organize themselves. Despite this, the constitution has not been updated for over a decade.

In fact, for some years the family constitution was just on paper. The development and further formalization of the family constitution came later with the institutionalization of the family council. Once the family council started working as such, the family started rethinking the constitution and institutionalized it.

“When we first wrote the constitution, of course we believed in the usefulness of it, but I have to say it was more on paper at the beginning… We came back to the constitution when we finally could make the family council work. My sister and my father were there and the four of us as well. This is when it [the family constitution] recovered the sense it had because we worked on it all together… It is true though that it has evolved, but we have not written the evolution yet. Now we have to adapt it to the new circumstances—a sole CEO, the next generation coming on board, and so on’. (James II)

Writing the constitution was recommended by the family consultant and highly prescribed by the professional associations they took part in, however it also resulted from their belief in its advantages. Even though at first the constitution was only on paper, and some of the issues tackled were applied (e.g. the sister inclusion in the business), the real process of development took place through conversations in the family council. Updating the family constitution is the next stage to make explicit what they have been doing so far.

8.3. Introducing the Bau Family

This section presents the Bau family business case study. As in the first case I introduce the main actors of the Bau family, some of whom directly involved in the family business, and others not involved in the business, the business model development and the development of governance structures.

8.3.1. Family Business History

Bau Co. was founded in the 1960s by Mr. Bau and is still in the hands of the Bau family with 100% family ownership. This construction company has grown for
over fifty years, becoming a large unrelated diversified firm, one of the leading companies in its sector in Catalonia.

The idea to start a construction business came from Mr. Bau who began with earth-removal in the early 1950s. Mr. Bau was a visionary and saw opportunity in the possibility of becoming a contractor rather than a subcontractor. Until today the engine behind the company’s growth has been the founder’s enterprising spirit. Mr. Bau has a wide pool of resources and skills that make him an intuitive leader, seizing opportunities as they have appeared. This is how the company has diversified into three major areas: construction, energy and real estate.

Three turning points were crucial to the continuous development, growth and change of the company. In the 1990s, the Barcelona Olympic Games represented major growth in terms of construction bids in the city. Many competitors focused on this profitable niche, which was heavily depleting margins to win the bids. Mr. Bau decided to leave that niche and concentrate on another segment; public works projects, which allowed the company to grow and position itself within the market as a solid and solvent contractor. This temporary competitive advantage came to a definite end once the Olympic Games were over, when there was increasingly fierce competition.

Given the complicated situation that was eventually to come, Mr. Bau started professionalizing the company to give the family business a stronger position from which to compete. Around 1995 Mr. Bau hired an external CEO who gave the company that new impetus. At that time, the second generation had started to disembark. The founder’s two eldest sons, John and Rafael joined. The children took over the two divisions previously created by their father as a result of economies of scale from the construction company. These divisions were developed by John and Rafael. Some years later a third brother joined the construction company, running the core business.

As of today40 the company has 500 employees and a turnover of more than 200 million Euros per year (see Figure 14). Due to the tough economic crisis that began in 2007 in Spain, and heavily affected the construction sector, the family worked towards changing the business model into the original business model they started within the 1960s. The core business was construction, and they sold the other two divisions to concentrate their efforts on what they consider has the potential to continue growing, given their expertise, competences and capabilities.

The second generation took over the top management positions, and more recently they all have moved to the board of directors. Similarly Mr. Bau has moved to the board of directors.

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40 This information is from year 2012.
8.3.2. The Family

The Bau family began the family business in the 1960s through the entrepreneurial effort of Mr. Bau. Mr. Bau married twice and had a total of five children. Two are from his first marriage, and the youngest three children are from his current marriage. Between the five children there is a considerable age difference. This has also impacted the age range of the third generation, the eldest cousins, John’s children, aged from their twenties, to the youngest of George’s children, aged five months.
1930s-1950s - The Founder

Mr. Bau was born in the early 1930s in a small village near Barcelona. He had nine siblings, of whom he was the youngest. His family had a long tradition of farming, since the 11th century. Mr. Bau had to cope with the Spanish Civil War, which, as in many other cases, shaped his character and personality. He grew up with a widowed mother who lost her husband in the civil war, and then lost his grandfather some years later.

As tradition mandated in Catalonia, the first-born (Mr. Bau’s eldest brother) inherited all the land and he was in charge of the family farm. The mother had nine children to take care of and she was also helping her religious community. The family lived from farming and, when resources were scarce, they turned to selling plots of family land.

Mr. Bau had to look after himself but he also decided to take care of his family. At a very young age Mr. Bau left school to help his oldest brother with the farm. Given his experience in working the land he did a degree in agriculture to expand his knowledge. Although he received interesting job offers when he graduated, he stayed at home developing the farm. He decided to mortgage the family farm to buy a tractor in order to modernize the farming methods. His village did not have fertile land, and so he began to raise pigs, although this venture failed with the outbreak of swine fever.

A combination of factors, such as the failed pig farm, the low productivity of the family’s lands, and his desire to protect the family, led to a new endeavor. He began to till his neighbors’ fields in order to amortize the tractor. His agricultural studies helped him to develop the “business” further by included fumigating the fields with herbicides, which allowed him to cover a larger territory than just his village.

Mr. Bau realized that people called him occasionally for earth removal and this new job had the potential to grow. His limitation was the single tractor he had, so he found an efficient solution, which was renting tractors from businessmen in other towns. Step by step Mr. Bau started to diversify as the market demanded new things, and to profit from the modern machinery used. This was the starting point for the current business. He began with earth removal in his village.

1960s - Current - The Founder

Mr. Bau was married very young, at 20 years old, and had two children, John and Maria. He enjoyed the countryside and had many hobbies he abandoned when he had his growing family to take care of. He was a hard worker and put all his energy into expanding the business. A few years after he married he lost his wife.

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41 Something similar can be appreciated in the Labor family history in the third generation.
and was left with the two little children. Mr. Bau combined his long working schedule with taking care of his children. He met his second wife and had three more boys, Rafael, Jake and George. Her second wife took care of the five children and devoted her whole time to them, not being involved with the family business.

In the 1960s, Mr. Bau modernized and expanded his fleet of machinery and asked for a loan to buy his first specialized piece of equipment, a Caterpillar. A few years later a natural catastrophe represented a great business opportunity for Mr. Bau. The mountain streams and the river in a large area in Catalonia overflowed and flooded. Earth removal intensified and led to consolidation of the business.

Mr. Bau assumed many risks before founding what is now Bau Co. Between the mortgaged family farm and the bank loan for the Caterpillar, he could not sleep well until he had paid off all his debts. Finally in the mid-1960s Mr. Bau founded Bau Co. where he positioned himself as a contractor rather than subcontractor, which led to construction and public works.

Mr. Bau worked very hard, over long hours. His five children grew together, and they all admired their father. With the passage of time, Mr. Bau started diversifying when he saw opportunities for making economies of scale, which was the case with energy distribution, as he needed it for the good functioning of the machinery. Eventually his values also led to diversifying into real estate, because for him value was in land. This led to heavy investment in property. For this reason, the real estate division counted on a vast expanse of land to use as the basis for its development.

The construction division was its “flag ship”. Horizontal expansion included the two business units previously noted: real estate and energy. Mr. Bau has been immersed in his family business since he was 16 years old. Until very recently he has been involved in the day-to-day operations of the business. Little by little he has started to move up to the board of directors.

1980s- Current - The Next Generation of Siblings

From the second generation only three of the five children are involved in the family business. Maria and Jake did not want to take part in it because they had other interests and non-business profiles.

The eldest son, worked to earn extra money since he was very young. At a young age he enjoyed dealing with motorcycles and cars, fixing them and reselling

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42 In the 1950s, earth removal was done manually and was rudimentary - by shovel and spade and with large numbers of Laborers coming from other parts of Spain.
them. Ten years later he had a consolidated car business which he sold when he married and joined the family business. He had two daughters and a boy. He studied law and joined the family business at the end of the 1980s, taking care of the real estate division. At that time this division was still in its infancy, but it had great potential for growth. Once working in the real estate division John saw an interesting opportunity in urban management, which his father had developed to some extent. John focused on developing and building shopping malls, something novel at the time, and something which would later be more competitive.

Maria, the second child, left home at 18 years old to study English abroad. She worked hard combining two jobs during this period to earn money and pay her expenses while studying for four years. After another year travelling around the world she started a career far from business studies. She married and had a girl. A few years later she divorced and re-married. She had a boy with her second husband.

The third child, Rafael was the eldest of Mr. Bau's second marriage. He studied engineering with the idea of being able to develop a professional career in any industry and company. He was called by his father to join the family business when he had just finished his degree, because he was needed at that moment. At first he started in the construction division, while he was doing his MBA in a prestigious business school. Later he moved to the energy division to develop it further. Rafael worked hard to take the energy division as far as possible and diversify within it. Rafael joined many professional associations, such as the IEF, and Asociació catalane de la empresa familiar, because he was particularly interested in the “family” side of the business.

Jake, the fourth child, joined the family business for over 10 years in the administrative department, when he finished school. He did not have a university degree at that time, and he was not particularly interested in business matters. He decided therefore to reorient his professional life and studied tourism. His enterprising spirit has allowed him to do what he truly likes, start a company dedicated to organizing artistic events (concerts, festivals, etc.).

The youngest child, George, followed his father's desire that he study civil engineering. He had an entrepreneurial and social-oriented character and organized emergency aid caravans from Spain for countries at war. He also had business in the tourism industry. When he graduated he joined a leading construction company in Spain to gain experience outside the family business, then he undertook an MBA abroad in a prestigious business school before coming back home to join the family business. He married and had three children, two boys and a girl. When he joined the company it was in the construction division, given his educational background. He has been developing the business with his father since then.
8. Qualitative Approach

8.3.3. The Business and Business Model Development

The business started with the founder’s entrepreneurial capacity and vision to convert a tractor into a major construction company. Over time the business model changed within the founder generation, and also with the joining of the second generation in the family business. At the beginning Mr. Bau developed his business as a subcontractor. The services he offered for earth removal led him to decide to expand his business, renting tractors to other businessmen, and as such satisfy an increasing demand across the country. In the 1960s Mr. Bau saw the consolidation of his earth-removal business due to the natural catastrophe that flooded his village. He founded his first subcontracting company with 75% of the shares, along with his eldest brother, who had 25% of the shares. In the same year Mr. Bau founded a second company, already envisioning the future of the sector, by focusing on construction and civil works. He saw that business potential lay in being a contractor, and that the days of subcontractors were numbered.

“I founded first the company with my brother, basically it was what we had been doing for many years already, being subcontractors. Some months later I also founded Bau Co. because I saw the future was in being contractor…. ” (Mr. Bau)

Being small, Bau Co dedicated itself to civil works and started working for the local government as a result. It expanded to regional and national governmental entities, making the business grow. Mr. Bau began to win bids primarily to pave secondary roads and dirt lanes. It was a market with incredible potential, one with great yields due to its recent development. The company began to diversify and entered the areas of asphalt irrigation and concrete, both related to earth removal. Growth was possible but the pace of growth was slower than their competitors due to the lack of trained engineers, as professionals were hired by the government directly from university.

“What I see though is that we did not grow as much as we could have grown. I think this was because we did not find good engineers for a long time…. If I had found the people I have now earlier, the story would have been different.” (Mr. Bau)

In the 1990s there was another turning point which made the business change its focus. The Barcelona Olympic Games was a major event attracting large construction firms to bid for works in the city of Barcelona. Mr. Bau realized that being a small family business could eventually become a problem when bidding, and he thought great opportunities could be seized if focus was placed on traditional public works projects, where the large firms had lost interest. This left the company well positioned and earning attractive profit margins.

When the Olympic Games were over, the bidding construction companies returned to the traditional segment. This was another turning point for the company, since competitors started a price war to win the bids, reducing
margins. In the face of such a difficult panorama, Mr. Bau realized that his clients valued companies meeting or beating deadlines. He therefore changed his strategy and positioned the company in terms of high quality and reasonable deadlines. Quality basically implied the best engineers and meeting deadlines set for the various projects. Offering shorter completion times and fulfilling the contracted standards of quality was the norm for Bau Co. This allowed him to make room for his company among the most prestigious within the industry and begin to operate in other geographical areas within Spain.

“When I saw this [high competition and price war] I thought… we need to change our strategy. We realized that deadlines were of great importance for the one who needed the work. So we worked with our engineers to be able to offer shorter deadlines without losing quality. While the market offered 18 months we could deliver in 12 months… This was of utmost importance for me, because this allowed us to position ourselves as a trustworthy company and become well-known.” (Mr. Bau)

This new competitive environment seemed complicated and Mr. Bau realized that the situation was going to be even harder, so he decided to professionalize the company by hiring an external CEO who could bring the tools and necessary knowledge to compete against the big players. He went to the market and hired the engineer he considered was the most capable, to turn around the company and move the project forward.

“…I think my father had the right idea, which many other entrepreneurs do not have and make lots of mistakes. He has an extraordinary vision and he acts logically and with common sense. This decision [professionalizing the company] has been crucial for our survival and success.” (John)

The CEO took over the reins in the mid-1990s, introducing important changes, the most noteworthy being the massive professionalization of the company, not only at the operational level but also at the executive level. This increased the company’s constant growth. At the same time Rafael joined the company after finishing his degree and worked hand in hand with his father for four years before moving to the energy division, after the liberalization of the energy industry, to develop it.

Related diversification really started when the children took over the other two divisions. The energy division was created by Mr. Bau when he saw the need to supply fuel for his own fleet of machines. He allied himself with other independent gasoline station owners to form a conglomerate, the first distributor in Spain of liquid combustibles not associated with an oil company. Rafael developed a business model which allowed the company to quadruple the number of gasoline stations. At the same time, he saw a great business opportunity in developing wind-generated energy plants which have represented a major success over the last 10 years.
8. Qualitative Approach

“…My brother with a few gas stations and the crazy idea at that time of entering into wind energy to fight against large monopolistic companies has made a great job in developing this division. In fact, now it is something exceptional and a best practice in Spain, what my brother is doing. And he himself as a person, he has been named unanimously president, among the many members involved in this sector, of the association of wind energies.” (John)

The eldest son in charge of the real estate division developed the business unit towards urban development and managed to grow the business until 2010 when he left the family business, and the division was sold due to the real estate crisis in Spain that hit hard for about five years.

“When I joined this division [real estate] my father had already worked on residential construction, but he had a bad experience so he did not want to continue with this line. At the beginning I felt the same so I just managed the land we had, and then I started with shopping malls, something new at that time. We saw increasing competition so we moved towards vertically integrating the chain. This is buying and managing land, real estate promotion, and house rental”. (John)

In 2013 the family decided to sell both business units, the energy and the real estate division, due to the economic crisis that severely affected consolidated results, and decided to refocus on the core business: construction.

Source: Bau STEP Case

Figure 16: Business Model Bau Co.
8.3.4. Developing Governance Structures

The governance structure in Bau Co remained simple until the second generation came on board and started developing it. Even now the governance structure is still in its early stages of development.

8.3.4.1. 1950s-1990s The Owner-Manager Model

During the first thirty years of its existence, the Bau family business had a relatively simple governance system. Leadership, ownership and decision-making were in the hands of the founder, Mr. Bau. Mr. Bau had a strong leadership based on intuition and self-reflection. This was especially possible due to his simple business model, and simplicity in terms of business and family systems.

“We are a first generation family business; therefore the creation of governance structures is related to how the company has developed. [In the first stage] my father had the acquired knowledge from farming, which was not his business as he was not the first-born. He did study agriculture and he had a tractor. He was self-employed, and then he started hiring tractor drivers and so on. So you can imagine decision-making structures were founder-centered. He is the owner, the manager, the worker, so everything is in one person. (Rafael)

The development of the governance structure came first with Mr. Bau who took the lead in professionalizing the operational side of the business. The executive committee has been highly formalized especially after the hiring of the external CEO in the early 1990s. Even though a CEO was appointed, Mr. Bau retained executive power.

Then [in the second stage] as the company became more complex (in terms of number of employees, more clients, the type of projects and business strategy) be [my father] developed structure in terms of management, production, purchasing, legal, etc., etc. He had an executive committee, but he didn’t develop the higher level of the governance side”. (Rafael)

8.3.4.2. 2000s-Current: Increasing Awareness in the Need For Developing Governance Structures

The second generation, particularly Rafael, has been instrumental in starting the process of developing other business governance mechanisms, such as the board of directors, and introducing awareness of the family governance mechanisms, family council and family constitution.

“When we [the second generation] arrived [to the family business] we realized that even though the structure had been adequate since the founding until now, when the company achieved a turnover of more than 100 million Euros, well… then…you have considerably increased the complexity of the business, the market is increasingly complex,
8. Qualitative Approach

which requires a more complex management system. This is not possible for a single person [with no structure behind them]. I mean, a single person, despite being extremely good, is not enough to handle all this.” (Rafael)

“This is an issue [developing a governance structure] I have not worried much about, which is worrying. But actually this did not worry me much because I had someone who did it for me. It has been Rafael who has done everything. Rafael in this, I can really say that thanks to him all this has happened”. (John)

The development of the governance structure was driven by Rafael, the third child of Mr. Bau. Rafael earned an engineering degree and undertook an MBA at a prestigious business school. He obtained knowledge of topics related to family business. Additionally he was involved very early in the Catalan Family Business Association, which launched a section for young family members. Eventually he became president of the association, and years later he joined the senior group. Rafael has thus been strongly engaged in the activities of the professional associations and has been trying to introduce changes in his family business. His involvement in the professional associations has been instrumental in driving change in his family business. He invited his family numerous times to talks and seminars related to family business issues to make them aware of the need to change things in the family business.

“…at the end we did organize everything a little bit thanks to the information I obtained from the association. The information I obtained in the association I transformed to mine, because I read everything that arrives in my hands, so you realize there are several things you have to do to avoid failing. In fact I summarize it as the typical errors family businesses should not make if they want to succeed, for instance not professionalizing, not writing a family constitution, making family members compete with non-family members…” (Rafael)

Changes in this matter have been difficult to apply because resistance to change was evident in the other family members. Perceptions did eventually change as the institutional champion worked towards being legitimated and able to persuade his brothers and father to start introducing governance mechanisms to build a solid governance structure.

“At the beginning I thought that everything he applied was only theoretical knowledge acquired in the business school or elsewhere and said ‘uufff, these theoreticians, it is horrible how they can destroy everything’…But actually no. He has this double perspective. First he is rational and practical, because he has had to learn fighting and ‘crushing stones’43 and I can tell you that what he is doing with the Eolic and alternative

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43 The saying in Spanish is “picando piedras”
energy is not stemming from theory at all, it is his wisdom acquired in the battle field... And of course there are some theoretical concepts he has been able to put into practice successfully, for instance I think in the structure he has put together for this professional succession, or whatever it is. Besides structuring the companies, he has worked on developing the family side, the family council, family constitution, family office…” (John)

Rafael has tried to include the whole family in the family business issues, assuming that all five children will eventually become shareholders. He has raised the awareness of the increasing complexity this and the next generation will bring to the family business. This is why he has proposed the adoption of family governance mechanisms. He has pushed for the development of the board of directors in order to start reducing the high CEO dependence that has existed for over 50 years.

“We are working on all that. Above all be [Rafael] has worried about the typical mistakes of family businesses that we were falling into, such as lack of communication, knowing that the family will include in-laws, second generation family members that may or may not become shareholders, family members working in the company… We need to fix the rules for the next generations (who can work in the family business, in-laws, outsourced services offered by family members or in-laws…) this is the moment to make everything clear, which has been my brother’s job, which is good.” (John)

Board of Directors

The board of directors was created in 2002, with the incorporation into top management positions of the second generation of the family business. This was the first governance structure the second generation was involved in adopting, since the executive committee was in place a decade before, when Mr. Bau professionalized the company. The board of directors appeared as necessary for the second generation when they realized the complexity of the business and the future challenges they had ahead of them and they felt it was not possible to deal with complex strategic issues alone.

“He [my father] is still the sole shareholder, but we did take responsibility for developing the next level. He professionalized the company, mainly in terms of management. He did this well. But at the upper level of governance be never... be was present at all committees, it was him who took all decisions, he was the sole administrator. So we took a step forward and convinced him to move from sole administrator to a board of directors. The idea was to start explaining things and reporting, something that has never been done so far.” (Rafael)

The process started with the hiring of a prestigious strategic consultancy company for a specific study for the future strategic moves of the company. Given the ambitious strategic plan proposed and the increasing complexity in the
market the consultancy firm proposed that the family to have a board of directors. This is something the family already had in mind.

“We convinced my father to have a board of directors”. (Rafael)

“...The board of directors? That came from the strategic consultancy group. It started with a study and then it became the idea of the board. We [the consultancy firm and the family] jointly proposed it. In fact, I already wanted to have a board of directors. It was time to have one. We have grown a lot and it makes no sense to have only one person at the front without having a board of directors”. (Mr. Bau)

There was also a clear need for a transition from the first generation founder-centric leadership to the second generation top management team leadership.

“This was relevant for us because my father had all the knowledge and strategy in his head. To share this knowledge, and for us to learn this was a good way to start giving explanations”. (Rafael)

According to Rafael, the idea of adopting a board of directors was to take a step forward towards professionalization and to reduce CEO dependence. The board would give the company more accuracy in terms of decision-making, given that the board was composed of several members contributing with plurality of knowledge and skills, and that responsibility was also legally shared (civil and criminal responsibility).

“... in the end the board adds plurality, and it shares responsibilities. This is good because when you invite an external member they want to be sure of the decisions that are being taken.” (Rafael)

The creation of the board of directors was a first step to opening the mind of the whole organization. When the board started, it was composed of Mr. Bau, his three executive sons, three independent board members with voice and voting rights, and two board members as permanent invitees (with no voice and no voting rights). The invited board members were included to allow them participating and take part in the process. These people were the general manager44 and the corporate services director.

The three independent members were chosen by the family for different reasons. One was chosen because he was a lawyer experienced in negotiating with unions. He came from the textile industry and was well connected with the

44 I call the CEO of Bau Co the general manager, because he really plays the role of a COO, as the CEO role was taken at that time by Mr. Bau.
industrial sector. Informally, this board member was the best friend of Mr. Bau. He was also the bridge between the first and the second generation, given the close relationship he had with the family.

“… we started with Mr. King, lawyer, now retired, he is my age, his name is Ben, like mine, and we have been friends since we were kids, but he lives in another city.” (Mr. Bau)

“… One of them had a lot of experience with unions and he is my father’s best friend forever. But he is a person with a lot of business experience. He also knows us quite well, and he was a good nexus between my father and us. Often the things we have to say to each other are said through this board member.” (Rafael)

The second board member had a macroeconomic profile. He was part of the government working in the economics area. He is now a professor at a prestigious business school. He held the family trust and had a high institutional presence. He also contributed with sufficient calm to analyze everything. The third external member was also closely related to the Bau family, because they lived in the same town and both families have known each other forever. He had an aggressive profile, coming from the multinational world after having sold his company to one of the largest multinationals in the world and becoming the right hand of the giant company’s CEO.

Even though a board of directors was adopted and the family believed in the benefits of having a board of directors, decisions were still taken individually outside the board.

“Regarding innovation and new pathways to grow? Ehh…we do this…from the board. And we do this ourselves with my kids” (Mr. Bau)

“… I am in charge of it [the real estate division], but the general director reports to me and I report to the board of directors and I am also in the board. But the general strategic lines are marked by us, with what my father thinks is ok… and I think or my feeling. Yes, also now in the board, but this was adopted 6 months ago or so.” (John, in 2006)

“We started working like this, and the first years were very difficult, because my father was still making the decisions all by himself. Not only did he take the decision all alone, but he did not share them with the board”. (Rafael)

The fact that Mr. Bau was a founder, constantly assuming risks, intuitive and highly successful in his decisions made it difficult for him to fully assume the role of the board. Even though he gave his full consent to put the board of directors in place, he really accepted it because it was legally required. Thus, for around four years the board of directors was an ornament in the company, as decisions were taken in parallel.
8. Qualitative Approach

“It was my father that took the approach of not considering the board at all, because we really believed that it should have functioned from the first day... In fact, I think he heard us and said ‘Ok, let’s have a board of directors, we can let them do something, it sounds good for the external stakeholders, the company seems more important if it has one, with externals’, but in his mind he took all decisions until he stumbled, which made him realize that the board could play an important role.” (Rafael)

Mr. Bau was accustomed to taking fast decisions based on his intuition, but the need to explain things to the board was the first eye opener for him, in seeing the potential power of the board of directors. Although he still took most decisions by himself, he started sharing these decisions with the board, little by little.

“...This [the adoption of the board of directors] was good because my father started explaining things. When we [the kids] asked him why he took a specific decision, he just said 'because it is a good business, it is obvious'. We could not make him give us a rational explanation. But it is different in the board, because he has people of his age, experience and knowledge, so...” (Rafael)

During these years the board of directors has been instrumental in rationalizing and making explicit the family strategy. It has also helped in narrowing down the actions required for following the planned strategy. There were many temptations, such as the temptation to internationalize into countries where they had no economies of scale or knowledge about. The board has thus helped them in maintaining certain coherence in regard to the strategy planned.

It was not until 2010 that the board really worked as such. One day the board of directors discovered a difficult situation that derived from a decision made related to investments in internationalization. A decision made some time ago had repercussions for an actual situation. When they [the board] realized that the decision had been made outside the board, this triggered an important discussion that raised awareness of the importance of having the board of directors. In other words, if the board left the company this would represent a great loss for the family. While the second generation firmly believed in the usefulness of the board of directors as a decision-making instrument, it was that event which triggered Mr. Bau’s full understanding of the role of the board of directors in the family business, because he realized that the environment had changed radically and complex elements that he may not understand could affect decisions. Thus, the board would eventually contribute with his complementary knowledge to support decision-making.

That year, in addition to the economic crisis, turned to be a complicated time for the family business, because the previous decisions made individually not only caused difficulties for the business but also meant the departure of one of the siblings from the family business. The board moved from seven members to six
members, three family board members and three independent board members, the same ones who had started in 2002 with the board.

“When this happened my father realized that the board was a key ally and it was important that everyone rows in the same and an adequate direction. So it was important to have the board informed and actively participating in the decision-making process.” (Rafael)

The board meets once a month and is well developed and highly formalized, presenting agendas, minutes and so on. This has been instituted since the beginning.

**Executive Committee**

The executive committee was adopted in the early 1990s with the incorporation of the external CEO. This was an important step towards professionalization in the Bau Co. The committee was composed of the CEO, the founder, the corporate services director, Rafael in the energy division, John in the real estate division and the managers of each division.

“My father has been quite good and active in leading the professionalization of the family business, with the hiring of the external CEO and the constitution of various committees.” (Rafael)

In 2002 when the board of directors was adopted, the executive committee became more executive, as they had to report back to the board of directors.

In 2006, when the youngest son joined the family business as head of the construction division, the executive committee evolved into a committee integrating the sibling’s top management team with external executives and the founder.

The executive committee evolved again as a consequence of the changes in terms of the family involvement in management and the change in the business model. As of today, the energy division and the real estate division are no longer part of the business. The eldest brother left the company a couple of years ago, and Rafael left the management side and moved up to the board of directors. Nowadays, the only sibling active in the executive committee is thus the youngest engineer in charge of the construction division.

The executive committee is highly formalized and meets once a week to discuss day-to-day operations.

**Family Council**

The family council is the missing mechanism in Bau Co, although awareness has been raised about the need to have a family council to include all family members who may eventually have something to do with the family business. So far the
efforts have not resulted in the adoption of a family council. According to John, Rafael encouraged the interest when explaining the relevance one of family councils.

Rafael explained that the family had not been able to adopt a family council because the founder's mental model is that of owner-manager. Only those who work in the company receive information about the family business and are entitled to have shares.

There are informal meetings, however, where the brothers working in the company, especially Rafael, explain to Maria and Jake what is going on in the family business. This is something Rafael considers crucial, not only because the other siblings may eventually become shareholders in the future, but also because they receive financial support from the family business, and he considers it important that they are also informed about the situation of the company.

**Family Constitution**

The family constitution of Bau Co was written in 2003. The 2000s was the time when family constitutions became a “fashion” in Spain, as a consequence of the great incentive given by the family business professional associations prescribing it as a useful element to set the rules of the game in family businesses. Rafael spoke with his father and addressed the need for a constitution that could regulate the third generation involvement in the family business, as the oldest grandchildren were about to start their university studies. The fact that they had a family business could influence their career choice decisions, something they thought it would be good to avoid.

Mr. Bau was proactive in the initial idea to write a constitution, convoked his trustworthy lawyer and met with him for a tête-à-tête to set the rules for the next generation. Both had prepared a family constitution defining the legal and economic aspects of the relationship between the children and the parents, and the children among themselves. These rules, affecting the next generation and the following ones, were made by the founder and his lawyer. The second generation did not take part in the elaboration of such document.

“…We did this [the family constitution] in the summer. I am doing it with my lawyer, who is specifically a relative of my first wife. We have a very good relationship and he is like my spiritual advisor, my commercial advisor, etc. so I told him ‘let’s do the constitution’. I was in my summer house very close to his house so I went back and forth many times to prepare it. He finished the legal part. Now there are other parts missing, which I hope my children can work on. In fact there are many aspects they should work on, among others, the involvement of the in-laws. For instance two of my sisters-in-law are an architect and a civil engineer, so the bases for their involvement in the family business should be clearly defined.” (Mr. Bau).
The family constitution was read by the children when finished. Given that they were not involved in the process, and the content was not really agreed by them, the constitution as it has been written has not been followed so far.

“…When reading the document we asked ‘What is this document explaining…?’”
(Rafael)

According to Mr. Bau, the remaining parts of the document were to be prepared by the second generation as it would directly affect them. Thus they soon met to work on it.

“…My youngest son is finishing his MBA abroad; that is why they have not been working on it. But he will be here some days for the holidays and they will sort this out to set the rules for the in-laws and externals. This is the future of the company, setting clear rules. I want them [my children] to do that, because at the end it is for them and it will be useful for them.” (Mr. Bau, 2005)

As of today the Bau family has a written family constitution with values, legal and economic aspects explicitly stated, but no one follows it.

8.4. Introducing the Fluss Family

The Fluss family is introduced in this section. The case study presents the story of Fluss Co. in terms of business model development and development of governance structures.

8.4.1. Family Business History

Fluss Co was founded in the early 1950s. It is a hotel company that has retained its business model for three generations so far. The company started with a small hotel on a beach in a Spanish island and continued its expansion by purchasing hotels in the same region. The second stage comprised the acquisition of lands and hotel buildings. Thirty years later it began its expansion to other regions in Spain and in the early 1990s its international expansion took off.

As of today the family business is managed through a CO-CEO model formed by Sofia and Ben, two siblings of the third generation. After 60 years of existence the company operates almost 120 hotels (between property and management regimes), with a turnover of more than 1 billion Euros. It is one of the largest internationalized Spanish hotel chains, with a presence in Latin America and the Caribbean, Europe and Africa.
8.4.2. The Family

The Fluss family history starts with James Fluss who was an entrepreneur since a very young age. He started several businesses, from driving trucks, to building a banana distribution empire in the port of Barcelona in the 1920s before entering the hotel industry. After a positive experience in Latin America managing a hotel, he bought a hotel on a Spanish island with his wife Linda. Both worked together in the hotel. James and Linda had a son who started working with them at a very young age. The son's wife, Sara, also entered the family business. Later their two children, Sofia and Ben, joined the company and took over the business after his father's death. The fourth generation is already in their twenties and thirties and James has been incorporated into the family business. Ben has recently finished his studies and he may also join the business.
**The Founder - 1930s-1950s**

James Fluss was born in a Catalan farming family, the youngest of six siblings. As the Catalan tradition mandated he was not entitled to inherit any of the land or property that had been in the family for 200 years, because he was not the first-born. With no formal education, he moved to a village nearby to work as an apprentice blacksmith when he was twelve years old. James was an adventurer, constantly looking for new opportunities. From his first job as a blacksmith he saw a new business in becoming a mechanic to repair cars, and later buying a car to give driving lessons. Still at a very young age he began another enterprise, entering into the fruit selling and distribution business with a truck he rented. His continual trips from his town to Barcelona became another business opportunity, as a messenger.

At that time, at the age of twenty, James married Linda, a very hard working woman. A few years later James had to leave his family with his oldest brother during the Spanish Civil War, to work transporting medicine and food for hospitals. He avoided going to war twice thanks to his unique profile, as a hard-worker, with an honest personality. Sofia, his granddaughter, recalls:

>“Every morning, he would load the truck with food and deliver it to the various hospitals. He was the only person capable of completing the entire route in a single day.”

(Sofia)

When the war ended James had to start all over again. He went back to the fruit transportation business which diversified into potato transportation for
monks. Every single opportunity was seized by James who had good intuition for making business. His last adventure before the hotel industry was the banana market, patenting a system for conservation in the port, where he created a monopoly. This was a key venture in gaining the necessary money to start his hotel business.

“My grandfather invented and patented a system for custom-ripening bananas, which is essentially identical to the one used today. He rented a large cellar in Barcelona and hung his bananas inside. He ran some tubes with sprinklers through the cellar. Sprinklers didn’t exist back then, so he had to invent them. He poked holes in the tubes and pumped water through them at a certain pressure. The system allowed him to use cold, lukewarm or hot water, depending on the ripening needs of a particular batch of bananas. This way, they were always perfectly ripe.” (Sofía)

James moved to a small town in Latin America looking for new opportunities, leaving his family and business in the hands of his wife, Linda, and his son, Ben. His previous knowledge of repairing cars opened the door for him to work in a large multinational car manufacturer where he soon became manager. His hard work led him to become the director of the main office in the great city. This is when his family sold the fruit business and moved with him.

The Founder-1950s-1980s: Starting an Empire

The family settled in Latin America, and decided to invest their savings in the hotel industry. They rented a hotel and managed it for over three years, making the business a success, but at a personal level they missed their country, so they decided to go back home.

This gratifying experience in hotel management was the trigger for James to start the same business in Spain. They found an emerging market on a Spanish island. He took the advice of a good friend, who lived in Costa Brava, and had heard that the Spanish island had the potential to become an important tourist destination.

While the future was promising, there were some disadvantages to the area, such as geographical location, which meant difficult access, and that it was an underdeveloped area with little infrastructure, but James thought this would eventually change over time, so he bought his first hotel in the middle of nowhere at a nice beach.

“I never understood why my grandfather decided to buy a hotel in the middle of nowhere on a lost island, with no easy access, because you had to arrive by boat. Airplane trips were not that common at that time. Besides, he had the Costa Brava right there, with high potential due to the fact that the French people came on holidays to spend the summer in that area.” (Sofía)
In a few years they moved from one hotel to eleven hotels in the same area managed by James, Linda and Ben. Some hotels were rented, some others were owned.

1950s-1980s: The Second Generation

Ben began to work with his father and his mother at a very young age, first in the fruit business, then in hotel management of the Latin American hotel and then when they bought the hotel on the Spanish island. His early incorporation in the family business was an advantage for managing it, since he complemented his father in many aspects. He had a charming personality and was able to “sell rocks”. With no formal education, like his father, he was highly intuitive and had an open personality, with skills of persuasion and negotiation. Their competitive advantage was their capacity to adapt to a changing environment and envision the future with clear strategies in their heads.

Ben met his wife Sara in the village in which he was born. When they got engaged Sara lived still in the small village and Ben move to Key islands. After some time Sara moved to Key islands to marry Ben and to work with him in the family business. They worked together with the founding generation. Their hard-working spirit and entrepreneurial mindset conditioned their honeymoon. On this occasion Ben and Sara profited their work by taking brochures with them, to promote their hotel in Spain across Europe. With his charming personality Ben approached a German tour operator who immediately had a good feeling about him, and they started a long-lasting commercial relationship that represented the head-start of the Fluss family business.

Ben was very sensitive towards his employees, and he did not like the seasonality that left his workers without a job for over six months, so he looked for methods to keep the hotel open year-round in order to provide his employees with stable jobs.

“…Someone who works only six months a year and spends the other six months doing other jobs, like construction work, will never be engaged with either of his jobs or become a good professional in either one”. This was my father’s great struggle.” (Sofia)

Finally Ben achieved his greater objective, which was to have the hotels open all year-round by convincing first the local stores to remain open all year round, and proposing a partnership to his German tour operator, so they could constantly fill the hotels.

Ben and Sara had two children, a girl and a boy, who joined the company immediately after finishing their formal studies. With them on board Ben felt that he had still work to do to make the business grow. Having them there encouraged the initial steps towards internationalization.
1980s-Current: The Third Generation

There is a five year age difference between Sofia and Ben II. They are united and created the same atmosphere for their children, when they decided to build their houses in the same piece of ground as their grandparents. Living together in the same area has been a way for them to create stronger links between and among generations.

Sofia and Ben II grew up around the family business, listening to their father’s stories and learning from his experiences. His father always emphasized that Spain had a lot to learn from the rest of Europe.

“My father would come back from business trips with boxes of Lego. He would sit down with us and tell us what he had seen in Europe. How different things were in other countries and how much development was still to come to our country.” (Sofia)

Sofia, the eldest sister, studied business administration in Key Island. While studying she passed through different areas of the family business, from the kitchens, to the bars, the restaurants, and the rooms. She started working with her parents as soon she finished her degree.

Like his sister, Ben II spent his summers working at the hotels and learning from the family business. He studied economics in Barcelona and went to work at a hotel not owned by the family in order to gain outside experience. Sofia had always been sensitive to the family side of the family business. She inherited the soft skills of managing people and helping others from her father.

Sofia married Steve and had two children, James and Maria. After some years she was divorced and met her new husband Marc. Marc had a child from his first marriage, Lucy, who lived abroad. Marc joined the company and worked there for several years.

While Sofia developed her career within the internal areas of the company, particularly in administration and finance, Ben II took another pathway focusing on the company’s expansion. In the early 1980s Ben II was sent to other islands to open new hotels.

“…I was always the one who got sent off to war. I was there [on the other island] for five years, almost six. I started the whole process of expanding in other areas. I think that if they hadn’t found someone to oversee the process, we would never have grown. Some companies fail to grow because they don’t have anyone to send, or because people are too lazy to go themselves. It’s easier if you can send someone who is willing and eager to go.” (Ben II)

Ben II married Susy and they had three children, Ben III, Jen and Bob. Susy worked with Ben II in the family business until they moved to the Caribbean to start the internationalization process of the company in early 1990s.
“Then I went to the Caribbean. I was there for six years. I got married and had my two children there. In the mid-1990s my father asked me to come back to Spain and oversee the entire group.” (Ben II)

Sofia and Ben II worked hand in hand with their father, making decisions together, until he was taken ill and they took over the reins of the family business. Given their complementary skills, Sofia contributing in the area of finance and administrative, and Ben II providing his vision and intuition for future expansion, they created a co-CEO model that worked well and is still working well. One of the reasons for such a good partnership is their close relationship, based on respect, trust and admiration of each other’s work.

The company has grown exponentially in the past thirty years. It has gone from running eleven hotels on a small Spanish island to operating 120 hotels in several countries. With more than thirty thousand beds, it is currently ranked the world’s 20th largest hotel chain in the world.

2000-Current: The Next Generation of Leaders

The generation of cousins has always lived together on the same parcel of land. Weekend lunch at grandma’s house has been a tradition since they were born, and still is. The geographic proximity and the cohesion among their parents has been essential to create such a close relationship among cousins.

The fourth generation is on their way to joining the family business. Lucy is the daughter of Sophia’s second husband, Marc. Sofia has always taken care of her as if she was one of her own children. Lucy has always had a good relationship with Sofia and her stepsiblings. She studied anthropology and is interested in continuing to exercise her profession, and has no intention of joining the family business. She is now in her forties and enjoys living abroad. She participates actively in the family council meetings, but her role as she describes it is:

“…that of seeing things from outside. As I do not work in the family business and I was not born in it, I usually have a different perspective than the others.” (Lucy)

James is the oldest son of Sofia. As his mother did, he worked every summer in the hotels of the family business around the world. He gained experience in all possible areas (from house-keeping to hotel manager). James studied business administration in a prestigious business school. After graduating he joined a large finance corporation and moved abroad to work there. After some years he returned home and joined the family business as finance controller under the supervision of the finance director, who was the right hand of Sophia. When the finance director retired James took over this position, directly reporting to his mother. It has been a challenge for him to separate his role as director from his role as son, but he believes it has been a great experience to be able to work with
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and under the supervision of his mother and his uncle. Now he is in his thirties and has developed strongly in the family business.

Maria is close to her 30th birthday. She is the youngest daughter of Sofia. She has recently finished her studies in hotel management and tourism in Barcelona and has been working, as is the tradition in the family, in the different hotels during her summer holidays to gain experience. She enjoys being a hotel manager and changing destinations.

Ben III, Jen and Bob are the youngest children of the fourth generation. They are Ben’s children. Ben III has studied abroad and recently finished his career in business administration and he is reflecting on whether to enter the family business directly or to start working somewhere else to gain experience and prove himself. They realize that the third generation is very self-demanding and expect the same from them.

Jen is in her third year in business studies and would eventually like to join the family business. Bob has recently started business studies as well and he is looking forward to joining the business one day.

8.4.3. The Business and Business Model Development

Fluss Co. was founded in the 1950s with the acquisition of one small hotel on a large underdeveloped island in Spain. Mr. Fluss was a hard-worker and adventurer, and his gratifying experience in Latin America allowed him to envision the potential for starting such a business on the Spanish island. In fact starting at a place where scarce infrastructure existed represented a key strategic move for the company as this island became its headquarters. Mr. Fluss worked with his wife and his son, who soon became his right hand, as he realized Ben’s entrepreneurial spirit and his capacity to provide a vision for the development of the family business.

Gradually Ben became the leader of the company, providing his vision and thus the strategic leadership to move the company to the next level. Ben also knew how to create cohesion among those around him, build consensus and let others develop in areas where their skills were more adequate (e.g. the effective leadership of his parents in solving problems in operations management). With his vision, he decided to contact a German operator which gave them the ability to fully book the hotel in advance. Some years later he convinced the German operator to become his partner, which became a key competitive advantage and also a trigger for expanding the business. In a few years they had 11 hotels, some of them as property, others in management, but all of them on the same island.

“My grandfather was not a natural born hotel proprietor. When there was just one hotel, my father was both the director and the salesman - the one who filled the rooms. My father handled everything. He was even in charge of human resources, which he considered very important. My mother was in charge of housekeeping. Every morning
at 6.00 am, she went to the hotels to assign work to the maids. She would check all eleven hotels, one by one. My grandfather handled purchasing and technical services - that is, machines and repairs. His experience as a mechanic and as a fruit buyer came in handy. My grandmother took care of everything related to sheets, tablecloths, etc., and made sure everything was nice and clean." (Ben II)

It was in the 1980s, when the third generation was already on board, that the greatest expansion and internationalization process started. Ben knew that his two children, Ben II and Sofia, were capable of helping him developing the business even further. Sofia took over the administrative and finance areas and Ben II was sent away to build new hotels, first on other islands in Spain, and then in the 1990s Ben II moved to Latin America to start the internationalization process.

The family’s involvement in management duties has been essential to the development of the company. The family has been so far the company’s only source of advantage. The third generation, Sofia and Ben II, have positioned the company among the largest hotel chains in the world. Now the fourth generation of cousins is entering the family business.

8.4.4.  Developing Governance Structures

Fluss Co has kept a relatively simple governance structure over three generations. Their governance structure is currently in the early stages of development.

8.4.4.1. 1950s-1990s: The Owner-Manager Model

The owner-manager model has prevailed for over fifty years in the Fluss family business. Mr. Fluss has been the main driver of the company and his intuitive decision making was vital for the foundation and development of the family business on the Spanish island. The founder was the leader and the one making all decisions until the incorporation of his son Ben. The development of the company depended on the skills and competencies of the owner-manager.

With the incorporation of his son in the 1960s, the same owner-manager model prevailed, as Ben gradually took over responsibilities, and eventually the leadership followed the same model in terms of no formal governance structures, where discussions often took place at the kitchen table with his father, mother and wife. The low complexity in terms of family, given that the founder had only one child, Ben, and Ben had only two children, has been a key factor in the lack of a need to implement governance structures, as well as the unchanged business model.

The next generation followed a similar pattern. Ben led by himself until his two children joined the company. Little by little Sofia and Ben started to take over more and more responsibilities and in the mid-1980s Ben started to really
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share decision making with his children, meeting whenever necessary, talking around a coffee, a dinner or a lunch.

“When my father was alive and… my brother came back from the Caribbean, because he has been living there for many years,… then we used to meet the three of us, Ben II, my father and I, when we had to take any important decision. We sat down calmly and we talked about the issues that worried us.” (Sofia)

When Ben passed away, Sofia and Ben II took over the reins of the company. Even though the third generation had a team of two siblings running the company, the owner-manager model prevailed and is still in place after 50 years of existence. The transition period between Ben’s death and the children occupying the CEO positions was difficult for them, as they had to find their places and organize themselves to continue with the family business.

“When my father died and Ben II and I took over the lead… well we had some, let’s say difficult years, more complicated because we had to take the lead…and this was something we never thought about before that moment arrived… we never thought about succession, maybe because we had small children at that time.” (Sofia)

The Co-CEO model worked (and still works) well, with Sofia and Ben II leading together, with divided responsibilities and complementary skills. The respectful tone and admiration they profess for each other is important for maintaining the model’s efficiently functioning. The governance structure so far, until the mid-2000s has been simple, with few formal mechanisms in place. The professionalization of the family business started from below, developing the lower management positions, and creating an executive committee to support operational decision making, but the upper level was still missing.

8.4.4.2. 2000s-Current: Increasing Awareness of the Need for Developing Governance Structures

The Fluss family business has a simple governance structure and is ready to develop further. They have a highly effective executive committee that has been adapted over time and now serves to provide support to the two executives. The company has no board of directors. Instead, the two co-CEOs carry out governance functions directly. It does, however, have a family council, currently in the form of yearly family meetings.

Sofia and Ben II intend to expand the functions of this body, now in its infancy. The third generation has worked hard to raise awareness of the need to create a governance structure that can help the fourth generation come on board when the time arrives. Sofia has noted that family complementarity in terms of skills, competencies and profiles, as well as their close relationship, may not be the same in the next generation, even though she has been working hard to create an environment to foster such close relationships and cohesiveness among the
cousins. Sofia has thus started building the governance structure with her brother’s unconditional support.

“When we passed the difficult transition [of my father’s disappearance from the family business leadership], and we took the baton, well… I don’t know how, but I started thinking, well actually I started to become aware of the need to somehow start integrating the next generation with us.” (Sofia)

The role played by Sofia in developing the governance structure has been of great importance in the integration of the next generation in the family business world. Sofia has always been characterized by her soft skills, as was her father, being able to drive change smoothly, obtain consensus from everyone and develop cohesion among the people that surround her.

“The truth is that Sofia has taken the lead on this. She wanted to get everyone involved, and for us to somehow inform them; that they know what we do, how we do it. I just said yes when she asked me my opinion, because I know that she has good ideas. She is in charge of all that. I have other issues to take care of.” (Ben II)

Sofia realized the need to develop the governance structure after her father’s death, as she realized that succession was important and they needed to integrate the next generation. This awareness did not appear by chance, she has been involved in IEF (Instituto de la Empresa Familiar) for many years and she was constantly exposed to documents and information about the family business, and the different aspects of family business management. She was also interested in exposing other family members as much as possible to family business topics.

“…I don’t know how I started thinking about this… well, actually yes, I belong to IEF and I receive lots of information, so I was reading for many years about the family business… and… I even advised my son to take any possible course related to family business, when he was studying at a prestigious school here in Barcelona. I told him ‘James when you have electives, please choose any about family business, I think it is important, well good for us as a family business.’” (Sofia)

**Board of Directors**

In the Fluss family, strategic decisions and the direction of the business were determined in the hands of the founder in the first generation. When Ben joined the family business he jointly made decisions with his father and little by little took over leadership of the business. They used to discuss strategic issues constantly and the strategy was in their heads. In fact in the first generation, the emergent strategy was constant, as it was in the second generation. Both generations were quite intuitive.

When Mr. Fluss died and Ben took the leadership of the business, the same model was repeated for a long time. Ben took all decisions and he planned the
strategy in his head. Only when his two children joined the company did he start sharing his vision with them, at table kitchen conversations or in the improvised meetings they had every day in the office. They moved from ‘How are you?’ to ‘I saw a good opportunity in the Caribbean, maybe we should invest there’.

In the third generation decisions are made by the siblings as a team, but meetings are still informal and made every day. Although this is the case, the Fluss Co has a board of directors that regularly presents all the signed documents required. In other words, the Fluss family has a board of directors, but only as a legal requirement. Even though they comply with all the required formalities, the practices attached to the board of directors are made by the owners in an informal way. Even with their external shareholder and partner, meetings are held, but not fully formalized.

“We have a board of directors, but only on paper, even though we have various corporations participating in different ways through other companies. But we are also a 100% family owned corporation. Because of this we do not have a board of directors. The board of directors is me and my brother constantly talking every day. With our partners it is more or less the same. But of course we meet with them and talk to them. We have to recognize that we are very peculiar… so we like to take fast decisions and they are based on my brother’s intuition and whether we have the cash of course” (Sofia)

“… These positions are formal, but in reality we do not have a board of directors as such. For instance we see each other with our German partner from time to time, but not via formal meetings. We use the “Fluss” system, easy and direct. Our partner is a large operator publicly quoted, and to invest they need to make lots of projects and forecasts. We also do this but a posteriori, after we have already taken the decision in a more informal way.” (Sofia)

They know this has worked well so far, and this has been efficient for them, as they have qualities that it is difficult to replicate, such as the fact that their skills and competencies are complementary, their cohesion as siblings with respect and admiration-based relationship skills, and generosity on both sides has made them a perfect partnership. Making decisions with a board as such makes no sense for them because they would lose their freshness and speed in making decisions, which is critical in their business.

“We make quick and intuitive decisions. It does not mean we do not make calculations, but we do this a posteriori. We just have the intuition of my brother, we talk about it, we discuss the pros and cons, I verify from where and whether we can obtain the money for such investment, and if everything works we go for it. In less than two hours we might have made a millionaire’s investment. But this is only possible because of the experience my brother has in the field and what we learned from our father.” (Sofia)
“...but, what is really a board of directors? We hold executive meetings with our top management team. There we discuss about the satisfaction ratios of our hotels, or how our managers are doing in the different hotels”. (Sofía)

Sofía knows that the way they decide is “their own way”. She is also aware that his brother does not conceive another form for decision-making.

“Can you imagine my brother having to explain to someone his way of doing things, or someone asking him why he invested here or why he is opening a hotel in the middle of nowhere? I don’t!” (Sofía).

Sofía has also acknowledged that the next generation will probably need a more formal governance mechanism in that sense, as they are six cousins and not all may want to, or end up, working in the family business, but they will all be shareholders one day.

“...Maybe the children will need it [a board of directors], because I know that what I have with my brother might not be easy for the next generation, even though we have worked hard to build, to repeat this environment, but the circumstances are different anyway. Let’s see.” (Sofía)

**Executive Committee**

The executive committee was adopted under the leadership of Ben in the 1970s, when he had acquired five hotels. The management of these five hotels required an adequate structure to monitor the day-to-day operations of those five hotels.

“I remember when I started working in Fluss Co that we had already five hotels. I was in charge of the 5th hotel and very soon of the 6th. My father already had weekly meetings with his hotel directors. So this was a long time ago. We used to have weekly meetings on Mondays.” (Sofía)

Over time the company grew. In the 1980s there were already over 20 hotels, and Fluss Co had expanded to different islands in Spain. There were more people and the committee also evolved into a more sophisticated committee, including a wider range of directors in the meetings. Meetings were composed of Ben, the hotel director, the food and Beverages Director, HR director, finance director and Sofía.

“...When we grew and expanded, we used to meet six people, functional directors, my father, myself. My brother was opening hotels abroad.” (Sofía)

For many years the executive committee has been composed of 6 people. What changed was the type of executives attending the meetings as the company evolved, professionalized the functional areas, and expanded to new functional
areas. Sofia has taken over the HR, the finance and the commercial direction gradually with the retirement of the respective directors.

In the mid-1990s Ben was no longer there, and Sofia and Ben II were in charge of the business. The pace of growth was important and this required another type of executive committee. The Fluss family developed the committee to a larger pool of people. The committee changed their meeting frequency from weekly to monthly meetings, because it comprised 12 members, from regional directors to information systems. Not all were close by, and the topics to discuss were at a higher level, with less detail. Eventually this large committee became less effective and less operational over time.

“Already in the 1990s we had this new system of 12 members in the committee. We thought it would be easier and more effective to meet monthly instead of weekly. Evidently it was not sustainable to bring our directors from other regions each week. But with time we realized this was not effective anymore. Too many people, and we were less and less operational.” (Sofia)

In early 2000 Sofia and Ben modified the committee and left it with 7 executives, including Ben II and Sofia. Although they continue to hold small informal meetings with specific people when required, this is where decisions are made and where things are looked at and analyzed in detail.

“We do not like organizational charts and we prefer a flat organization, you know? It is like easier to manage the company. Like these people do not stay in their comfort zone, and communication is more fluid. Anyone can come and knock on our doors.” Sofia

They meet monthly and discuss diverse issues. Two issues are always on the agenda. The first is the Customer Satisfaction Index (CSI). This index is the most important aspect for the success of the company for the Fluss family. They believe that if this is not working, they will definitely not achieve their expected economic performance, and therefore, the Fluss family spends a considerable amount of their time in analyzing the CSI in each and every hotel and in each and every item. Discussing this first point of the agenda in the meetings may take a whole morning. The second issue always present is that of economic results. This, they believe, is the consequence of their performance in the first issue.

“We usually spend hours in discussing how our hotels are performing in terms of customer satisfaction measures, because we revise every single item. We might spend hours on only one hotel depending on the situation. For instance now we have opened our city line, which differs from our typical “all inclusive” concept, so we take into account new variables. In a recently inaugurated hotel we had many issues to solve, so we had to spend quite a lot of time solving that.” (Sofia)
Even the next generation, which has recently joined the family business, shares the idea of having such a committee that centers its attention on the customer satisfaction index. James comments:

“In these meetings [executive committee] it is always the first point of the day. We go hotel by hotel analyzing the results to look for solutions, especially when we have new clients, who are not accustomed to the way Fluss works. Because in fact at the beginning we adapted everything for the German tourists, as they were the only clients we had. Then we started working with Americans, and they are the opposite. This system allows us to adapt to our clients’ needs.” (James)

The particularity of this committee is that it follows a German structure, the ‘Vorstand’, which is the same group of executives with a spokesperson. This is a best practice the Fluss family acquired from their German partner, which they thought would fit with their needs.

**Family Council**

The family council was adopted in 2002. Sofia adopted it with the total support of her brother, Ben II. Sofia has been involved in IEF and still is, and she is constantly exposed to family business issues and solutions for successful continuity. Such constant exposure made her realize that family businesses needed to integrate future generations to make the succession smooth and to set the basis for the future. Her sensitivity towards keeping the family united and making them all part of the history has played a key role in her decision to adopt a family council and to the way she developed it over time.

“So this is how [through the influence of IEF] I became aware that we needed to integrate the next generation with our generation. At that time, my oldest son was studying his first year in university, my second girl was still at school and Lucy is much older, so she had already graduated from anthropology. So we had three older children and the three children of my brother who were still way too young. But I talked to my brother about this idea and he agreed”.

There were many reasons for adopting such a governance mechanism. Sofia had already seen that many other family businesses had one. Additionally the IEF prescribed it as a useful tool for a family business in order to include the family in the family business equation. In fact, in her case, Sofia saw clear indicators they needed such a thing. First the oldest children were in their undergraduate studies and they would eventually end up in the family business. Second, there were family members who were not at all involved in the business, such as her mother or her sister in law, who both often objected that they knew nothing about the family business.
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“… I heard my mother say many times ‘I have to learn about our family business through the newspaper!’ and then my sister-in-law as well, complaining ‘Ben II arrives at home and he does not want to talk about work, so I don't know what is going on at all!’ These were for me indicators that we needed something to get everyone involved somehow.” (Sofia)

This is how the family council began. Sofia prepared the annual meeting, to keep everyone informed, and also to start socializing the children into the family business. The meetings were planned as annual, with one or even two per year depending on the situation. The topics to be discussed were to be focused on financial information, the most relevant highlights of the year and future strategy and problem solving. What was important for Sofia was the fact that the next generation would sooner or later become shareholders. Whether they might end up working in the company or not, no one knows for sure, but their shareholder rights are unequivocal. For Sofia it was important that the children could understand how decisions were made, and that if there was a mistake, how the executives reacted and could find a quick and efficient solution.

“The way I wanted to set up the family council was conditioned by the fact that all of them will be shareholders. They don’t have to be managers but they for sure will be owners. So my idea was ‘let’s analyze this from a shareholder perspective. Therefore we needed to show them the business in a short and concise but clear format. On the other hand, for me it is important they see that we make important decisions where we can make mistakes. And if we make mistakes we rectify them immediately, and look for solutions quickly.” (Sofia)

The first meeting in 2002 was very important for Sofia because it was the basis for future family meetings and its success would mark a before and an after in the way the family became involved in the family business. She prepared the meeting consciously and took care of all the details, particularly focusing her attention on the new concepts she was going to introduce so that everyone could understand the presentation following the session, the ownership structure, and the Fluss philosophy and values.

“… well in that meeting before starting with the explanation about the company, I gave a short session about economic terms and explained basic business concepts. This was because at that time only my oldest son was in his first year of business administration, and my brother and I were working in the company, but my mother and my sister-in-law, or Lucy or Maria, were familiar with business terms. So I started with the basic concepts of cash flow, turnover, Hotel P&L, and so on. I liked that because I like to explain things. People say I am pedagogic. It seems I explain well. Then we moved to the business matters.” (Sofia)

Given that all key concepts were internalized by everyone, the next year the agenda only included business matters. Since then every year the Fluss family has
met to report on what has happened, the numbers, data about the company, the issues faced throughout the year and where they plan to go.

The first family council was composed of Sara from the second generation, Sofia and Ben II from the third generation, and their respective partners, Marc and Susy, and Sofia’s three children, Lucy, James and Maria. Four years later in 2006, Ben II told Sofia that his children were ready to be incorporated into the family council as they were finishing school and would soon decide what to study. The youngest was still in his teens, and Sofia thought Bob might still be too young to understand the concepts, but she believed that sooner or later he would come to it. Ben II wanted to incorporate the three at once. As usual, Ben II and Sofia talked about the topic, discussed how to do it and agreed on it. In 2006 the first presentation, including updated values, philosophy, and key concepts, was presented again as an introduction for the new family members joining the family council.

“…to my surprise Bob was very participative and whatever he did not understand he asked again, and he asked why and how things were done. This was fantastic so as to better explain things and also to realize that sometimes the others did not understand it either but they did not want to ask again.” (Sofia)

On some occasions since then Sofia has convinced Ben II to bring external family business consultants and/or academics to the family council so they can share their knowledge and raise issues that can help the family think about the challenges they face as a family business. For Sofia this is an important element in raising awareness of many things.

In addition to the business matters, Sofia and Ben II have introduced other topics related to the family, such as the in-laws working in the company, or family members being free to follow their own path either in Fluss Co or somewhere else, the importance of having competent people running the business and that meritocracy is what prevails in Fluss Co, and emphasizing the fact that they will all be owners.

The final reflection Sofia makes regarding the family council is:

“Well, I think we have done a good job in preparing the ground for this to continue. It is true that at some point the ownership will be large, so what is the interest in trying to stick them together? Just because we like it ad I think this is the most important motive. The most important thing is that they know each other well, they like each other and whether they want to work together. In reality I am sure there are things my brother does not like about me, but we enjoy working together. So I hope that the six cousins are capable of accepting this and knowing each other well enough.” (Sofia)

Family Constitution

The Fluss Family has no written family constitution, but they do have a clear set of rules that everyone knows and respects. For instance the non-incorporation
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of in-laws in the company is well rooted and has emerged several times as an issue. The most recent episode involved an in-law who was looking for a job while one member of the fourth generation was working abroad. He spent a long period of time looking for a job with no luck, but given that the rules are very clear, he could not work at Fluss, even though the situation was difficult.

Sofia has frequently thought about the need to have a written family constitution. She believes that the constitution is a document that will be needed for the fourth generation, as she and her brother do not need it, and the process of writing it might need to be done by the next generation, with them involved.

“We want to write a family constitution, but I am still waiting because we think it is too soon. The rules we have are not written but are written with blood, so to speak.” (Sofia).

8.5. Interpretation and Findings: The Process of Developing Governance Structures

8.5.1. Introduction

The qualitative strand aimed at opening the black box of the process of developing governance structures in family businesses. I used an abductive approach, which means to go back and forth from theory to data (Alvesson and Sköldberg, 2009). I analyzed four main topics that emerged from the theory and the data, having in mind the institutional theory framework.

In the following sections I present the findings. I explain the process of development of governance structures in each case, where I show the different patterns, and highlight common elements. I continue with how efficiency and legitimacy seeking influence this development. Two new motivations have emerged when observing the cases: one is power and the other is learning. These two factors complement efficiency and legitimacy seeking in explaining why and how family businesses develop their governance structures. Then, I explain more in-depth the process of evolving from symbolic adoption to substantive adoption and to full institutionalization. I go back to institutional work to explain the work of the different actors and the main role of the institutional champion in leading the process of change in the family business.

8.5.2. Individual Patterns in the Development of Governance Structures

Family businesses seem to follow a similar sequence taking differing patterns. This may be mainly related to the heterogeneity among them (Nordqvist et al.,
In the three cases the different governance mechanisms have evolved over time attaining certain properties (Jepperson, 1991) that as a whole comprise the governance structure. As Selznick (1957) notes (for instance the integration of the next generation, the future strategy of the siblings’ generation), the development of these structures has occurred in response to particular contingent factors (Corbetta and Salvato, 2004; Gimeno et al., 2010) the family business had to face in a particular point in time, and some of these structures have become institutionalized over time (Scott 2008).

8.5.2.1. The process of Labor Co.

The process of development of governance structures at Labor Co. has been rather long, lasting more than 20 years. At the beginning Dr. Alfred Labor III had a simple decision-making structure, where the solo-owner made all decisions by himself. Decisions were particularly intuitive at first (Chittoor and Das, 2007, Gimeno and Parada, 2013), a tradition that he followed from his antecessors. His educational background with a PhD in pharmacy and various management and business courses in prestigious business schools conditioned, not only the strategy of the business, but also the formalization and adoption of a governance structure.

Alfred III started formalizing the governance structure with the advisory board in 1990. The adoption of advisory boards is highly recommended in the founder stage (Gersick and Feliu, 2014; Neubauer and Lank, 1998; Nordqvist et al., 2014), which was the case of Alfred III after buying out his cousins’ shares and staying as the solo owner. Alfred III has also worked on professionalizing the company, particularly in the administrative and operational domain (Gimeno and Parada, 2013). The early introduction of the advisory board is clearly related to Alfred’s III previous knowledge on the benefits of this type of mechanism. His educational background and his active participation in professional associations triggered not only the need but also the capacity to create it.

The advisory board thus was adopted for efficiency reasons, because Alfred III felt the need to have a mechanism that could help him in different domains. For him it was necessary to have advice on topics related to making strategic decisions (e.g. internationalizing). In line with Calabrò et al. (2013), the advisory board complied with that function as boards tend to work on advising and mentoring (Huse, 2007; Johannisson and Huse, 2000) in certain strategic choices, among other topics, related to internationalizing the business.

The advisory board played an important role particularly in driving change in the organization, because it triggered the adoption of diverse governance mechanisms. They recommended and supported the creation of the executive committee in 1999, as a result of the incorporation of the four children to the family business. Two generations overlapping in management positions, the fifth and fourth, was a challenging situation that needed to be managed. Their heterogeneity in terms of profiles and experiences, however, would eventually be
a key competitive advantage for the business (Bunderson, 2003; Hambrick, Cho, and Chen., 1996), but they required a formal arena where they could discuss the day-to-day operations, to avoid problems of control and coordination (Simmons et al, 1999).

With the incorporation of his children to the business, the siblings’ partnership (Gersick et al., 1997), the need for developing the structure further became evident. Not only was a new generation coming on board, but also the number of family members working in the company was increasing considerably. In line with Ward (2008), the Labor Co. was moving to an “operator” stage, and it required business governance bodies in place, to move from an individual decision making process, to a top management team decision-making process (Gimeno and Parada, 2013).

This is something the next generation became aware of. The gradual professionalization, of the business and the adoption of the board of directors, was triggered once more by the advisory board in their role of advising Alfred III and, was also planned by the four siblings of the fifth generation. The board of directors was created as a result of long conversations between the four brothers when they worked on a strategic plan supported by an external consultancy firm: The discussions went around deciding how they could carry on with the family business, given that his father had the strategy in his head, his knowledge needed to be shared systematically, and four siblings were sharing the power, along with their father. The fact that their father would eventually retire, required a set of structures that could support his transition to a higher level body.

The first board of directors was adopted in 2000. This represented the disappearance of the advisory board, as the board of directors replaced the functions of the advisory board. The board of directors was supposed to become a decision-making body instead. This was not the case for the first couple of years, despite the fact that the board was adopted formally since the beginning, but decisions were still made by Dr. Alfred III and he was used to decide by himself, even though he had the practice with the advisory board of sharing his thoughts. All this led to a certain degree of ceremonial adoption, where the board of directors existed formally, but some decisions were still made elsewhere (Meyer and Rowan, 1977).

Some years later, Tati, one of the sisters, who was originally not part of the future shareholder group, joined the board of directors, thanks to the family constitution rules stating that women were entitled to have shares of the company. This fact changed the dynamics of the board of directors as Tati was not part of the management team, nor had she knowledge about the business. The board thus changed its role, incorporating information sharing and knowledge development as part of their activities so Tati could learn about the family business, functions that are generally done by a family council.
Over time the board of directors gained legitimacy and played a key role in strategic decision making. In 2005, the board was fully operational in the way the fifth generation conceived it. It was composed by all family members working in the company (the four brothers and the father), and three independent board members with different profiles providing a large pool of additional resources and skills to the family business. The board composed of external members contributed with knowledge and networks and skills alike, and was thought to help execute the strategy proposed by the family’s vision (Pfeffer and Salancik, 1978). Tati continued in the board of directors.

An important change is the fact that the board of directors changed in terms of composition and objectives to cover the needs of the family business at a point in time. The evolution of the board of directors shows, the dynamic, pluralistic and integrative nature of an institution, as defined by Selznick (1957).

In 2007 and 2013, there were important changes in the business in terms of business units and in terms of the top management team composition. There was an evolution from a co-CEO model to a family CEO model. The latest change was to move from family CEO to non-family CEO. This evolution supports previous theoretical works that note that governance will likely evolve to adapt to the needs of the company because what has worked at one point may not work at another (Filatotchev and Bishop, 2002), given the different configurations that family businesses adopt over time (Nordqvist et al., 2014).

At the level of family governance, the family constitution was first written in 1999. The constitution was a fashion at that time, prescribed by consultants, academics, and professional associations (Melin and Nordqvist, 2007) and many family businesses wrote a family constitution to set the rules, but most of them were made for legitimacy reasons. This was the case in Labor Co, where Alfred III decided to write a constitution, at the beginning because it became a fashion and he felt it was good to have one, especially because his four sons were joining the company. This family constitution, thus did not serve much in the beginning. In this case the ceremonial adoption prevailed and lasted for several years. While the constitution was ceremonially adopted, the existence of this first document triggered the creation of the family council as an arena where the family could discuss the family and business issues.

The family council developed further in 2005 when Alfred III retired from the day-to-day operations and Tati could also participate actively in it. The development of the family council triggered further the development of the family constitution and its institutionalization. The family has been working on developing rules that could be useful for the fifth, and some of these rules could also apply to the sixth generation, leading to a functional constitution that still needs to be adapted to today’s circumstances. The relationship between the different governance mechanisms that comprise the governance structure is clearly observed in the Labor case. The different governance mechanisms, not only trigger the adoption of other mechanisms, but also enhance their
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functionality (Gimeno et al., 2006) as shown, for instance, in the relationship between the family constitution and the family council.

What is clearly shown in the Labor Co is that efficiency needs lead to substantive adoption, while legitimacy needs lead to ceremonial adoption as will be explained later in another section (see Figures 19 and 23).

Figure 19: Development of Governance Structures—Labor Co.

8.5.2.2. The Process of Bau Co.

Bau Co. has followed a different pattern in terms of developing their governance structures. As in Labor Co, the Bau first generation also started with the administrative and operational professionalization of the company, especially in the 1990s with the incorporation of an external CEO, allowing the family business to obtain the resources and skills to continue expanding the business (Daily and Dalton, 1992). This CEO, acted as a COO (Gimeno and Parada, 2013), because the founder was still holding the executive power. This first wave of professionalization started by Mr. Bau triggered the adoption of an executive committee. This arena for discussing the day-to-day operations with the managers was important for Mr. Bau as he needed to be informed of everything that was going on in the business. His two older children were already working in the company, and they also took part in the executive committee.

The executive committee evolved over time to adapt itself to the needs of the company. The first period was mainly for Mr. Bau to be informed. The second
period included the three siblings and their respective executive teams. The third stage was to adapt it to the selling of two business units and moving back to the core business.

The fact that the company was still in the founder generation leadership, heavily conditioned the development of the governance structure. In fact, Mr. Bau was an entrepreneur who made intuitive decisions and risked a lot. He made decisions quickly; independency gave flexibility to decision-making, which represented an important competitive advantage (Mishra, Randoy and Jenssen, 2001) compared to his larger competitors. He had the capacity to pursue options that he perceived as ‘first best’ given his personal opinion.

The incorporation of the children represented a new setting that needed some changes in order to continue their development as a family business. A decade after the incorporation of the second generation, Rafael took the lead to drive the structural changes in the organization. First the hiring of a consultancy firm to develop jointly the strategic plan was a trigger to raise awareness on the need to have a board of directors. Second, Rafael persuaded his father that they required a mechanism that could allow the children to take part in strategic decision-making and also learn from the founder. This is how they created the board of directors.

Mr. Bau who held the control and the power, and had the entrepreneur’s hat, did agree to adopt the board of directors in 2002. As it was recommended by experts (Melin and Nordqvist, 2007), the board of directors was composed by external members, because this represented the best practice, the two brothers and Mr. Bau. It was formally arranged and minutes, agendas and regular meetings were planned and held.

The board of directors however did not function at all, and the ceremonial adoption was evident (Meyer and Rowan, 1977) in 2005, when a crisis occurred. This crisis triggered the need to further develop and formalize the board’s role. For Mr. Bau accountability was not part of his mindset, but self-accountability was. Sharing his intuitive thinking with a group of people was not a practice he was familiar with. Therefore the board did not work as such until Mr. Bau realized the usefulness of the governance mechanism. The full institutionalization came in 2011 when his eldest son left the company, and the process of selling of the other business units started.

The board of directors, however, even in their initial stages as ceremonially adopted, served as a trigger to write the first family constitution. At that time the fashion was imposing family firms to have it (Melin and Nordqvist, 2007). Mr. Bau listened to his sons, board members, and also his friends about the benefits of having a constitution, and he wrote a constitution with his trusted lawyer. The fact that Mr. Bau did it by himself provoked the non-application of the constitution. This is because the children felt the constitution was meant not for them.
Mr. Bau had his own interests and two of the children were also focused on their own interests. Mr. Bau was also entrepreneurial in nature and had no business background. This led to the difficulty in introducing changes, and developing a board of directors, because Mr. Bau did not consider the benefit or usefulness of this structure for the family business.

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8.5.2.3. The process of Fluss Co.

The Fluss Co. also followed a different pattern in their work on institutionalizing governance structures. As it was the case in the other family businesses, the operational and administrative professionalization (Gimeno and Parada, 2013) was made early. The executive committee was the first governance mechanism to be adopted. This was because the family business was run by a sole owner who had expanded the business and the number of hotels, had required regular meetings to discuss the day-to-day operations. This mechanism developed over time in terms of people, and topics to be managed in these meetings. Yet, it was a fully institutionalized structure from the beginning.

The fact that the business started internationalizing and had become considerably large, and the death of his father were triggers for Sofia and Ben II to change the executive committee into a larger group of executives, which turned out to be inefficient. Therefore in 2000 they changed again the executive committee and adopted the “Vorstand model” which was a best practice from their German partners.
In the 1990s, they introduced the figure of the board of directors to comply with the legal requirements and because they were advised to have one. Yet decisions were and still are made in the coffee time every day between Sofia and Ben II. Thus the board of directors exists only on paper and is not a mechanism that they feel they need for the moment, because that would retard decision-making. The need for having a board of directors may appear in the next generation as Sofia highlights, because they may not be able to repeat the intuitive decision-making delegated in one individual, which in the case of Sofia and Ben is a co-CEO model that has been successfully functioning as individual decision makers.

In terms of family business governance, the Fluss family has a family council that started functioning in 2002. The family council was adopted because Sofia heard it was a useful tool for family businesses, in their continuous contact with IEF. Contrary to what usually happened in the other two cases, the family council is fully institutionalized and so it has been since the first day. This is because beside the fact that this was highly prescribed by the family business association, Sofia saw the need to adopt it, as her mother and sister in law felt disinformed and the next generation was sooner or later disembarking in the family business.

The family council had first Sofia’s children in the meetings. In the second stage, the children of Ben II joined the family council. The existence and functioning of the family council triggered the existence of a family constitution which is not written, but rules have been indirectly agreed in the family council and these rules are well known and respected by everyone. The family constitution has been the primary governance mechanism for the Fluss family to socialize the next generation within the family business and to build a setting for future shareholders. It has also been the arena where the whole family could be kept informed about what was going on in the business. It is interesting to observe that they have a family constitution as not a written set of rules.

Something worth observing is the fact that most of the governance mechanisms set in the Fluss Co. are fully institutionalized from the beginning. This is mainly because the Fluss family has been able to anticipate their needs. For instance, in building the family council Sofia has become aware of the growing complexity and she realizes that the model she has with her brother may not be replicable. This means that the family may need some structures to support their family growth and socialize the next generation with the business.

Sofia has the respect of all family members and the power to introduce important changes, such as implementing governance structures. Her power mainly emanates from her social leadership (her capacity to build consensus and smoothly drive change) and is empowered not only by her formal position as co-CEO, but by the support of her brother.

However, she is always working on consensus to build anything that will affect the whole family and/or business. This is another reason why full institutionalization has been possible from the beginning.
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Figure 21: Development Process of Fluss Co.

8.5.3. Different Paths for Developing Governance Structures

The paths for developing governance structures in the three family businesses have been different, as Nordqvist et al. (2014) propose. Some governance bodies were adopted first ceremonially (Meyer and Rowan, 1977; Kostova and Roth, 2002) for example, board of directors, particularly in Bau and Fluss, family constitution in Labor Co. and Bau Co., and family council in Labor Co. The ceremonial adoption of these governance mechanisms is in line with Kostova and Roth’s (2002) definition of ceremonial adoption where the governance mechanisms are highly implemented (e.g. the board of directors with externals, minutes, agendas, etc.) but the level of internalization (when the practice becomes valuable and individuals become committed to the practice) is low.

In other cases, some of the governance mechanisms were fully institutionalized (they have become internalized and there is psychological gain enjoyed by all parties involved in the process) from the beginning. This was the case for instance of the family council in Fluss Co., the advisory board in Labor Co., the executive committee in all three cases, and partially the board of directors in Labor Co. The direct full institutionalization is due to the fact that the different family members have seen the value (Kostova and Roth, 2002) of it and were willing to make it work. Their values were aligned and the mindset was ready for adopting that specific governance structure. In simple words, the fact that they
Some family businesses moved from ceremonial adoption to substantive adoption and finally to full institutionalization (Tolbert and Zucker, 1983). This was the case of Bau Co. with the development of the board of directors. At the beginning, the board of directors was adopted and it was the starting platform to start discussing family and business issues. The process was led by Rafael, who was not the most powerful actor – he was not the highest authority (it was his father) and had to deal with his siblings, who are equal hierarchically. Rafael had to lead with different issues. On the one hand, was the lack of knowledge and lack of interest of his father with regard to governance structures that represented for his father a threat to his way of doing things and to his hierarchical position. On the other hand, Rafael had to lead with different interests, levels of knowledge and expectations from his brothers. To reach the point where the second generation was ready to internalize the board of directors therefore took some time.

The board was ceremonially adopted as no one was fully committed and engaged. This period was short because the second generation very soon saw the value of it. Substantive adoption arrived when the second generation was fully engaged, but Mr. Bau was still making decisions by himself and did not see the value of having it. The evolution to full institutionalization happened after several experiences that required the advice and/or the involvement of the board which made Mr. Bau also internalize it and finally make it work.

In other cases, the full institutionalization of the governance mechanism was de-institutionalized and replaced by another one. This happened in Labor Co. where the advisory board was fully institutionalized from the beginning and was working in a very professional way. The transition to the second generation however represented a shift in the mindset and the needs also differed, which led to the replacement of that board with another type of board.

Lastly, the transition from ceremonial adoption to full institutionalization is also a possible pattern. The Labor Co. has worked its way into the family constitution and the family council first ceremonially adopted it because when they were adopted they had no need to have family governance as all family members were managing the business. Thus, meeting arenas for strategic decision and day-to-day work were already in place.

The ceremonial adoption was due to institutional pressures exercised by powerful institutions such as professional associations (Greenwood et al., 2002; Parada et al., 2010). The family complexity was not large enough to make them functional (Melin and Nordqvist, 2007; Gimeno et al., 2010). The evolution towards full institutionalization arrived over time as the family complexity increased with the incorporation of the sister to the shareholder group, the father stepping back from management and the board of directors, and the imminent arrival of the sixth generation to the family business world. The different
circumstances in changing the business model and the future strategy of the company also required adaptation of the family governance to set the stage for the future role of the family in the family business, not as managers anymore, but as owners.

Finally, the sequence in the adoption of governance mechanisms follows different patterns as well. In the three cases, business governance is the starting point. Bau and Fluss Co. have started first adopting the executive committee. This goes in line with professionalization studies (e.g. Gimeno and Parada, 2013) that highlight that family businesses tend to operationalize their administrative and operational domains before the strategic domains. The executive committee is the arena where the top management team meets to talk about the day-to-day operations. Hence, when the founder stage moves beyond to the siblings’ partnership (Gersick et al, 1997) the need for having a space for the top management team to discuss issues becomes relevant. The life cycle of the family and the professionalization pathways explain why this mechanism was first adopted. In both cases the owner-manager model was present. In the case of Bau because the business is still in the founding generation in terms of ownership and also in terms of higher level decision making. Fluss Co. has moved beyond the founder generation to a second solo owner generation. But the third generation with a co-CEO model was able to repeat the model given their complementary skills and cohesion. Thus the business was what required attention in the lower level of the pyramid.

Labor Co. conversely, started with the advisory board, an upper level. The Labor family has been reducing the complexity of the family with the first-born tradition concentrating decision power in the hands of the heir. This was possible until a certain point. When Alfred III buys the shares he is all by himself, but his sons were about to arrive. This triggered the need for having a mechanism that could work for supporting him in the development of the business and to help him in the incorporation of the children.

8.5.4. From Symbolic Adoption to Full Institutionalization

From the cases presented, there are three levels in the process of developing governance structures in family businesses. While these levels may seem sequential, this is not the case. There are different levels of adoption (Tolbert and Zucker, 1996).

The first level of adoption is ceremonial adoption (Meyer and Rowan, 1977). The literature on institutional theory suggests that organizations may adopt structures in response to institutional pressures (DiMaggio and Powell, 1983). This adoption may be passive, which means copying those structures and identically adopting them in the respective organization and context, leading to isomorphism of organizations and institutionalization of certain structures and practices (DiMaggio and Powell, 1983). The imposed structures may obstruct the
technical activities of the organization (Meyer and Rowan, 1977). The fact that conforming to institutional pressures to gain legitimacy may contradict the rational choice (efficiency seeking), leads to symbolic adoption of structures and practices, which is to adopt certain structures in the form but not in practice, or in the ongoing activities (Meyer and Rowan, 1977; Ashforth and Gibbs, 1990). In other words, organizations decouple the formal structure from the practices-in-use to respond to those institutional demands (Meyer and Rowan, 1977; Oliver, 1991).

Ceremonial adoption, then appears when there are conflicting demands coming from legitimacy and efficiency seeking (Boxembaum and Jonsson, 2008). In the three cases there was at least one governance mechanism in the governance structure that was ceremonially adopted.

Most of the ceremonial adoptions happened because the family wanted to gain legitimacy in front of other stakeholders such as other family businesses, family business consultants (Melin and Nordqvist, 2007; Nordqvist and Melin, 2002). This was the case in Fluss Co. when they decided to adopt the board of directors as part of the legal requirements and also the fact that external stakeholders may see it as appropriate. Decision making however is still done by the Co-CEO team sitting around a coffee every day, because this gives them flexibility in allowing fast decision-making. The same situation was present in Labor Co. with the adoption of the family council, which was highly recommended by the professional associations. This is why they decided to adopt it. It did not become institutionalized however until Alfred III retired from management and also left the board of directors.

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**When we first created the Family Council, we did it because everyone had it. In fact it was something I heard in the different seminars I attended from FBN, FFI, IEF....” (James 5th Gen- Labor Co.)**

**The Family Council did not work at all at the beginning. It was a recommendation of our consultant, so we thought, let’s have it”**. (James 5th Gen- Labor Co.)

**The Protocol was a tool that was so prescribed by the association and also my father heard it was a good thing to have in the business school he studied. So be decided to create one”. He was the only one to follow it, we did not even read it. It was a waste of time”** (Rafael 2nd Gen- Bau Co.)

**“We have a board of directors, but just on paper!”** (Sofia 3rd Gen- Fluss Co.)

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When we first created the Family Council, we did it because everyone had it. In fact it was something I heard in the different seminars I attended from FBN, FFI, IEF....” (James 5th Gen- Labor Co.)

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“We have a board of directors, but just on paper!” (Sofia 3rd Gen- Fluss Co.)
Second, the structure might have been **substantively adopted**. This means that some members of the family have fully adopted it and others have done it ceremonially, which led to decoupling or to different degrees of decoupling of the new governance structures and the practices in use (Bjerrengaard, 2011). This was the case in Bau Co. with the adoption of the board of directors. The second generation was convinced about the value of the board and did substantively adopt it, meaning that they used the board as a platform to make decisions, be advised, and create a team of skilled people to help them in achieving their goals. The board was also functioning with independent members, met regularly and had an agenda, minutes and all the requirements to be a formal arena for strategy making. Conversely, Mr. Bau had accepted the adoption of the board of directors, but he was not convinced about the value of it, as he was more comfortable making decisions the way he used to do at his desk and intuitively, and sharing information was not part of his mindset. In line with Boxembaum and Jonsson (2008), Mr. Bau adopted the structure ceremonially to comply with pressures, while continuing doing things in a way he considered effective, just to maintain face (Goffmann, 1967) towards external stakeholders. What previous studies do not consider is the fact that internal pressures can be as strong as external pressures. Family businesses bring an additional element, internal stakeholders, meaning other family members who may exercise strong pressures to adopt and change structures in the organization. This relationship may be more difficult to manage than the one with external stakeholders. Mr. Bau had to also comply with his family’s expectations and he opted for a ceremonial adoption.

Figure 22 depicts how a governance structure may be substantively adopted when some family members fully institutionalize the structure, while other family members ceremonially adopt the same structure.
The third stage of institutionalization, but not necessarily the last one, is full institutionalization. **Full institutionalization** happens when governance structures become internalized (Kostova and Roth, 2002), there is psychological gain enjoyed by all parties involved in the process (Berger and Luckmann, 1967), values are aligned and the governance structures are perceived as useful, hence they believe in the real value (Meyer and Rowan, 1977) for the family business. Kostova and Roth (2002) would call it active adoption because the implementation is high and all individuals highly believe in it.

In other words, the governance structure becomes fully institutionalized when the need for having it becomes evident for everyone. Thus, the taken-for-granted status takes place. This can be observed in the development of the family council in Labor Co., the development of the board of directors in Bau Co. and the adoption of the Family Council in Fluss Co.

Following different paths the three companies have fully institutionalized part or all the governance structures they have. The Labor family adopted the family council influenced by the professional associations and the family business consultant they worked with. It became fully institutionalized when Dr. Alfred III retired from the day-to-day operations, left his chair in the board of directors and there was the need to have an arena where he could have a place. This is when the family realized the value of the family council and started working properly, and become functional. The family was happy to have this arena to discuss and talk about the family and business issues, and where everyone had their place.

In the case of Bau Co., the board was fully institutionalized once Mr. Bau realized that the governance mechanism was invaluable for strategic decision making given the complex environment and difficult challenges the firm was facing. Having the decision-making power concentrated only in one person was not enough anymore. Mr. Bau saw the value of it (Meyer and Rowan, 1977) when some mistakes in his decision-making affected the performance of the company that could have been solved with the support and active involvement of the board. The Fluss Co., conversely had full support of the family in the adoption of the family council, which supposed the full institutionalization of the governance mechanism from the start.

In all cases, it can be observed that such processes may be difficult and this is why some previous steps may be needed (Selznick, 1957; Berger and Luckmann, 1967), where everyone agrees on the value of such structure (Kostova and Roth, 2002). Many interests are in play from which not all of them may be satisfied. For instance, in the Labor Co. Alfred III has left room for his children to drive change across various levels. His generosity has helped in making the process of change smoother. Similarly, the older brother, who had been “chosen” to be the next leader, as he was encouraged to study Pharmacy and get a PhD, had to step back in favor of the group.
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8.5.5. Rethinking the Reasons for Developing Governance Structures

Reasons for adoption of governance structures and practices are related to legitimacy and efficiency seeking (Kennedy and Fiss, 2009; Tolbert and Zucker, 1983). Previous studies have shown that these two seemingly opposed reasons go hand in hand, proposing that early adopters look primarily for efficiency and late adopters are passive and act to attain legitimacy. This dissertation goes one step further and analyzes the combination of both reasons in the same ‘adopter’, because either explanation is insufficient to understand the adoption of structures (Martinez and Dacin, 1999). At the same time, it proposes to look at the development of governance structures that range from adoption to institutionalization, instead of focusing solely on adoption. This is possible to do because my study takes a process perspective allowing understanding longitudinally how these two reasons influence over a long period of time with regard to the development of governance structures.

When observing the three Spanish cases, I found that the two seemingly opposed reasons interact differently, depending on the context, and they might interact at the same time or separately. More interestingly was to find that efficiency and legitimacy reasons explained many things, but power issues and learning emerged as equally important factors to understand the development of governance structures in family businesses.
In terms of legitimacy seeking, professional associations have played a relevant role in exercising pressures in the adoption of governance structures in the three cases. This is consistent with Parada et al., (2010) who found that professional associations exert institutional pressures to adopt governance practices and structures. Similarly, Melin and Nordqvist’s (2007) note the influence that professional associations play in purporting governance specific practices and structures, which may or may not be useful in all cases.

For instance, the family council in Labor Co. was created as a result from involvement of Alfred III and James in different professional associations. They adopted the family council when Alfred III was still actively involved in management and strategic decision making. His wife was not at all involved in the family business, and she was not interested in being in, and Tati was not part of the shareholder group due to the tradition of excluding women. The adoption thus was made due to institutional pressures, and not due to the fact that they really needed it.

In the case of the family constitution in Labor Co. the situation was similar to the family council, as the adoption of the constitution had to with the fact that the mechanism had become a trend at that time, and Alfred III saw all his friends had it. This was also the case in Bau Co. when Mr. Bau decided to write the constitution with his lawyer without the participation of his children. This is in line with Brenes et al. (2011) who found that the family constitution is a very popular concept in Latin America, widely adopted, although often not implemented or adhered to.

In the Labor family, however, Alfred III also thought it was useful as the children were already in the family business. The fact that the children wanted their sister to be part of the ownership group was an important aspect to be considered in the constitution. In this case, the adoption was triggered by the interplay between institutional pressures (professional association’s prescription) and efficiency needs (the increasing complexity of the family in terms of generations overlapping, number of shareholders, and future role of the family in the business values).

The executive committee in all cases was triggered by efficiency needs. This is the need to manage the business operations (Gimeno and Parada, 2013). This mechanism is taken for granted, not only for researchers but also for family businesses. When interviewing the different actors, as none of them had in mind the executive committee but they talked about the top management team. This portrays the role academics and consultants play in the development and institutionalization of certain mechanisms. Given that the executive committee is closely related to the top management team and it is merely business related to the bottom of the pyramid, it seems it has no interest in being researched. The focus of study is on the top management team characteristics or their behavior (e.g. Ensley and Pearson, 2005; Ling and Kellermanns; 2010; Minichilli et al., 2010; Nordqvist, 2005).
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The board of directors has been primarily adopted symbolically when first adopted in Bau Co. and Fluss Co. cases, mainly because of normative and regulative forces. Boards are an administration body that can substitute the sole administrator. In the case of the Spanish firms studied, all them were in their “founding” phase at least mentally, which meant to be the sole responsible for decisions and the future of the business. This means that the life cycle of the family plays a relevant role in the adoption of governance structures (Gersick et al., 1997; Nordqvist et al., 2014), particularly in the board of directors. Most studies suggest that having a board is useful, but the type of board may vary according to the contingencies of the family business (Corbetta and Salvato, 2004). When future generations -which usually implies more family members- join the family business, not all of them will be involved in the business, thus the board may evolve into a functional board to support not only decision making, but also generational transitions. This was the case of Bau Co.

Sofia in Fluss Co., was also actively involved in the family business professional association constantly receiving information, which triggered her interest in developing the family council. For her the professional association was a place to get inspiration, become aware and see best practices. She was not looking for legitimacy but for support, knowledge and tools to develop the arena where her family could actively participate in. In line with Parada et al. (2010), the professional association has been a platform to launch the family council, more than an institutional pressure.

![Figure 24. Institutional Pressures vs Efficiency Needs in Labor Co.](image-url)
An important question that arises, after observing the three cases and their respective paths for developing their governance structures, is why some governance mechanisms have not been developed further over time. This could not be explained by efficiency or legitimacy reasons. For instance, Fluss Co. had many efficiency reasons to develop the board. Fluss Co. is a leading company in
its industry with a turnover of more than 1 billion euros (size). The decisions they make involve strategic choices that require large investments to pursue strong internationalization, three generations have passed (later generation in charge), and the third and the fourth generation currently overlap in the management of the company (generations overlapping), and they show a high level of values alignment. Strong legitimacy reasons also exist, as the company has a partnership with a large tour operator that is publicly traded. Despite all this, they have ceremonially adopted the board of directors, but have not developed further the board since it was adopted fifteen years ago.

There are many possible reasons for not developing the board of directors. One possible explanation is based on the existence of informal mechanisms, like trust, substituting formal ones in the family business (Mustakallio, et al., 2002; Steier, 2001). There is a great level of trust in the relationship between Sofia and Ben II, but Labor Co. also presents high levels of trust between the four siblings and their father, Labor Co. however has developed further their governance structures.

Empirical evidence in the three cases show two emerging reasons for the development or non-development of their structures: power issues and learning (knowledge accumulation). Power issues lie “at the heart of corporate governance” (Fiss, 2008, p. 390). The development of a board of directors implies a change in the power relations between the family members and also with key external stakeholders. This leads to a redefinition of coalitions (DiMaggio, 1988), and prioritizing interests of the different actors (Wuthnow, 1987). Power issues may influence positively the development of these structures, for example when family members want a new distribution of power. This may be the case in Labor Co., where the four siblings, already settled in the company, looked for more empowerment, thus the future generation acquiring power and the previous generation ceding managerial power, but acquiring power at the board and the family council. This has been an additional trigger for Labor Co. to develop their governance structures. The redefinition of coalitions was important at this stage (DiMaggio and Powell, 1983).

Power issues can also affect negatively the development of governance structures. This may happen when family members are reluctant to give up power. This usually happens in the founder stage or solo-owner model. On the one hand entrepreneurial leaders will be more reluctant to give up power, since this power gives them freedom to quickly decide and use their intuitive skills. This may be the case of Fluss Co. as Ben II is very entrepreneurial and action oriented. On the other hand, founders will accept with difficulty equality in their relationships of power, and accountability to others as they rely on self-accountability. This may lead to a lesser degree of development of the governance structure. In this case, institutional work results more effortful, as will be discussed in the next section.

In the case of Bau Co., for instance, the development of the board has been a difficult process. On the one hand, Rafael, who led the change, had to deal with
different actors who had different interests. Power issues emerged, even though at the siblings partnership equality was present, but values and interests differed greatly. Before the adoption of the board, the power was mainly in the hands of the founder. This meant discretionary decision-making and no external accountability. The decision to translate the power to the board has been slow, because Mr. Bau was not convinced of the value of the board, and the power relations with his children had to change after 60 years of being the patriarch in the family and in the business. In conclusion power issues may lead to lesser development of the governance structure, if the power structure does not satisfy the diverse interested actors. This represents as well a change in mindset (Gimeno et al., 2010), usually a difficult step to make. Power relations changed in a significant manner since the institutionalization of the board of directors.

Learning, defined as the accumulation of knowledge and know-how, can also positively or negatively affect the development of structures. Knowledge accumulation leads to a greater degree of development of the structure. The educational background of the family members and exposure to learning experiences seem to have conditioned the level development of the different boards. This may be, because learning is related to disposal to change and easier adaption to change (Cyert and March, 1963). In the case of Labor Co. all family members involved in the process have a business background and have been exposed to such knowledge via management courses, consultants hired for strategic plan, and professional associations. Being involved in the process of development per se also creates a learning experience that helps in further developing the governance structure. A similar situation can be observed in Bau Co. Learning may lead to full institutionalization as seen in Labor and Bau. Fluss Co. shows also a high degree of development in their family council, mainly a consequence of the exposure Sofia had with IEF to family issues, something that was in her mindset since the next generation went to high school.

Professional associations have played an important role in the learning process of family businesses. Rafael, Dr. Alfred Labor III, James II, and Sofia have been actively involved in the IEF, and all of them have led the changes in their organizations. The exposure to best practices, hence, learning from others (Beckman and Haunschild, 2002; Wetphal and Zajac, 1994) has been a trigger to adopt some of the most prescribed practices, which they considered useful for themselves, the family council in the Fluss Co., the advisory board in the Labor Co., or the board of directors in the Bau Co. Actors learn from their own experience, and are exposed to different sources of knowledge regarding the topic, and also learn from the experience of others (Huber, 1991; March, 1991; March and Olsen, 1976; Miner and Haunschild, 1995). In summary, the more knowledge the family has developed about governance issues the more they will develop their governance structures. Figure 27 attempts to summarize the findings related to the reasons to develop governance structures. While power and learning may be different types of motivations than those related to efficiency seeking, the empirical material in this dissertation shows that they are
powerful explanations for governance development and institutionalization processes. Haunshild and Chandler (2008) suggest that efficiency and legitimacy reasons may not be sufficient to understand the adoption behavior of organizations, and propose learning as an important source of institutional change. In similar vein, Fiss (2008) proposes power to be considered in governance studies as they are a central part of adoption of these structures. In summary, the combination of these factors can better reflect the motivations for developing governance structures.

![Figure 27. Process of development and reasons for development](image)

### 8.5.6. Institutional Work in the Family Business

Institutional work is an attempt to bring back individuals to institutional theory. Proponents of this approach encourage a greater attention to the role of individuals in creating, maintaining, and disrupting institutions (Lawrence and Suddaby, 2006). In the family business, the purposive actions of individuals can be observed in the development of governance structures from ceremonial adoption to full institutionalization. There are many actors involved in institutional work in the family business. The more visible institutional worker is the institutional leader (Selznick, 1957), or institutional champion (Parada et al., 2010), who bridges the micro-environment with the macro-environment, and “engenders cooperation and wins consent” (Kraatz, 2009, p. 73) within the
different actors involved, but there are other family members who actively participate in doing institutional work.

In line with Kraatz’s (2009) proposal to take into consideration the institutional leader as defined by Selznick (1957) someone – “who understands the sociological and political complexities of the institution and acts accordingly… is a realist…sentient and self-aware participant…” (as cited in Kraatz, 2009, p. 63) – I explain the role of institutional champions in doing institutional work. I also try to shed some light on the experience and reflective process of actors engaged in institutional work (Lawrence, Leca and Zilber, 2013), a still overlooked issue in institutional work.

The institutional work in the family business may be more challenging than in other settings given the coexisting logics of the family and business that need to be balanced by the family members who maintain both logics (Smets, Jarzabkowski, Burke, & Spee, 2012). The process of development of governance structures in family businesses was led by an institutional champion in each family business. Parada et al. (2010) observed that institutional champions promote governance norms and practices in family businesses. In the three cases studied in this dissertation, it can observed that the three have led the process in different ways, given their position in the family and business systems. They relied however on similar macro-institutions for support and legitimation of the proposed changes.

There were many sources that have supported and inspired James, Rafael and Sofia in driving change in their respective family businesses. First, they have been actively involved in professional associations for a long time. Professional associations have been a source for many aspects in their institutional work, representing a platform for action (Lawrence, Suddaby and Leca, 2009).

The constant information they received from the professional associations and the interaction within that particular institution has created awareness in terms of the need to develop governance structures. For instance, Sofia has been receptive in terms of getting the family involved in the business. Her concern was mainly the integration of the next generation. Her soft skills and capacity to “sell” ideas was important to convince the family of the usefulness of the family council. Her idea, to ask the next generation to take courses on family business to start learning about the topic, has also come from the fact that she realized that, the professional association was giving her the basis to drive change in terms of developing governance structures (Parada et al., 2010).

The fact that the association groups a number of voluntarily self-selected family businesses provided them with a network of peers who share similar situations. The interaction with other family businesses produced knowledge and understanding of issues that involve family businesses, thus looking for best practices and failures to learn from other’s mistakes (Beckman and Haunschild, 2002). Rafael for instance has been involved in youth family business association and later on in the senior family business association. His experience was crucial.
for understanding what his family business needed to move a step forward in
terms of adopting governance structures. As Rafael commented, seeing the
mistakes others have done, he wanted to avoid them. This supports Parada et
al.’s (2010) findings on relation to what institutional champions get from
professional associations.

The institutional work done by the institutional champions was well-thought,
reflected, even adopting a governance structure symbolically was purposefully
done. Another source for them to learn from was consultants and academics in
business schools (Melin and Nordqvist, 2007). Their relationship with promoters
of family business governance structures has also served in their purpose.

The institutional work of James, Rafael and Sofia, has not been easy. The
adoption and further institutionalization of governance structures represented a
change in the mindsets, particularly of the founders', or for those who had the
sole-owner model. The fact that these institutional champions had to change
mindsets, engage others in the change project, create awareness for the need for
change (Parada et al., 2010) represented a journey where conflict among the
different family members lead to long discussions and different strategies to try
to get them in the project. But there was also a high degree of cooperation in
certain moments. This corroborates Zietsma and McKnight (2010) study on
Canadian forestry where they found a “collaborative co-creation”.

For instance, Rafael has had a hard time convincing Mr. Bau of the benefits
of developing governance structures. The following quote shows some of the
key themes in his reflective process:

“…To explain what the process was? Well, the process per se was very complex, I
would say difficult. My interaction with IEF since I was young helped me to see things
otherwise I would have not seen. I saw success stories but also failure stories that allowed
me to reflect on what my family business needed. I saw that if we did not have governance
structures in place, then we would even disappear over time. So, I had two fronts, first
I had to convince my siblings and create an alliance to convince then my father. How to
convince my siblings to change the status quo? They were comfortable with what we had
at that time. What I did? I thought the only way I could convince them was to start
socializing them with the issues, so every time I could I invited them to workshops,
conferences, whatever topic related to family business and governance, things that were
offered for instance at IEF or business schools. This was important because I wanted
them to see that what I said, it was not me, but it was someone else that said it. Once
this battle was more or less ‘won’, the second front, and probably the most difficult part
was to convince my father that we needed to create structures. See what happened with
the constitution… We convinced him to have one, and be wrote one…but by himself. I
did not expect that outcome. It was also very difficult to finally have an executive board
of directors, because my father was still making decision by himself. Unfortunately I did
not achieve one of the main objectives, which was to include the other family members
that were not involved in the business…” (Rafael).
Sofia conversely, had a high level of cooperation of the whole family as they saw the benefit of having a family council. These different reactions may have to do with different factors. On one hand, Rafael had to work a lot beforehand to gain legitimacy, a job he did mainly through his involvement in the professional association. Mr. Bau as a founder holds the power, and hierarchy is important for him, thus this might have been a barrier for Mr. Bau to accept changes from younger generations, besides the fact that founders are self-made. In the case of Sofia, her dominant position has given her a high level of legitimacy even without the support of professional associations and external constituencies alike. Additionally, the family council represented a win-win situation for everyone, as the older generations wanted to be kept informed and the younger generation wanted to be taken into account and be socialized into the family business.

This institutional work highlights the need for internal legitimacy to drive change within the organization. This is not easy to achieve in family firms, because family hierarchies are present. Dealing with parents and siblings is not an easy task, even harder the task to deal with cousins. Once the institutional champion is legitimized by the family members, he or she can drive change, but the outcomes might be unexpected.

Agency can be seen as temporally oriented (Emirbayer and Mische, 1998). Hence the work done by these champions is not only in regards to changing institutions, but also in maintaining and disrupting them. In Fluss Co., Sofia and Ben II have maintained the “emperor” model (Gimenos et al., 2010), following the past patterns of thought and action of their father and grandfather, thus sustaining their identity and existing governance structures over time (Emirbayer and Mische, 1998, p. 971). Presently Sofia has started developing their governance structure to sustain the next generation and create a bridge between all generations. This is the capacity of actors to make practical and normative judgments among alternative possible trajectories of action, in response to the emerging demands, dilemmas and ambiguities of presently evolving situations’ (Emirbayer and Mische, 1998, p. 971).

An important element in family businesses that might be different in other contexts is the difficulty when trying to enact changes of such caliber (the institutionalization of governance structures), given the type of relationship among individuals. While most research studies organizations where either top executives (hierarchical relationships) (e.g. Bjerregaard, 2011) or colleagues (e.g. journalists in the news media, (Raviola and Nörback, 2013) drive change, this dissertation focuses on family businesses where relationships are among siblings, cousins, or parents-children. Gaining legitimacy in this particular context is challenging. The institutional work of institutional champions needs a previous step of legitimation to drive change. This happens not only because family members tend to underestimate the value proposition of others of their same kind, but also because of family hierarchies, power and status conditions.
Figure 23 and table 12 are an attempt to capture the experience of these institutional workers in their process of reflexion as they engage in institutional work.
## Table 12. Accounts of Reflection of Institutional Champion.

<table>
<thead>
<tr>
<th>Sensemaking</th>
<th>LABOR</th>
<th>BAU</th>
<th>FLUSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Becoming aware of the need for adopting GS</td>
<td>I realized I needed something to help me carry on with the business, when I bought the shares of my cousins and my children were joining the company” (Alfred III).</td>
<td>I have been involved in some many activities in the association and I read so much that I knew those were the mistakes we had to avoid. So we needed to start building our GS” (Rafael)</td>
<td>“I received so much information from the association that I knew we had to integrate somehow the next generation to us” (Sofia)</td>
</tr>
<tr>
<td>Building legitimacy through external powerful institutions</td>
<td>&quot;I have been involved in FRN, FFI, IEF. This gave me the tools to work on changing the mindset and of course convining my brothers and father” (James)</td>
<td>&quot;I brought my brothers to all possible events so they could see the value of making the necessary changes. The fact that this was said by others was important”, (Rafael)</td>
<td>&quot;My sister has been in this family business talks, so she know about it” (Ben II)</td>
</tr>
<tr>
<td>Build alliances (collaboration)</td>
<td>“I sat down with my brothers to discuss all these issues. We were quite open in that sense. In fact even though I might have proposed the change, it is the group who okéd, right?” (James)</td>
<td>“Convincing my brothers was an important step for convincing my father of the need of having the board”. (Rafael)</td>
<td>“I have convinced my brother of having our annual family meeting with two externals so they can bring new insights and, start introducing the need for change.” (Sofia)</td>
</tr>
<tr>
<td>Diminish Confrontation</td>
<td>“I had a hard time convincing my father about the benefits of the governance structures. We did not believe in it and he continued making decisions by himself. This was an issue because at the end we had a board that was not really useful…” (Rafael)</td>
<td>“Adopting the family council was an easy task because everyone agreed and was happy to take part of it. After the members of the next generation will become owners, as we are now” (Sofia)</td>
<td></td>
</tr>
<tr>
<td>Creating a shared discourse and start change</td>
<td>&quot;Together we could finally agree that these elements could help us. This was our starting point as a next generation” (James)</td>
<td>“Actually it is really good all what we have done in terms of developing the structure. Like this we will be sure to have clear rules and space to talk about the family ad the business” (Jake)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>“We could develop the family council because my father was happy to alue a place to move to after retiring. So we were when we left the management positions to act as owners” (James)</td>
<td>“Developing the board of directors was finally made when my father understood that the board was here to help” (Rafael)</td>
<td></td>
</tr>
</tbody>
</table>
PART IV. DISCUSSION AND CONCLUSIONS

The last part of the dissertation presents two chapters. Chapter nine introduces the rationale of the study and then it presents the discussion about the joint findings. Chapter ten presents the conclusions, the theoretical implications for the family business field, institutional theory, and corporate governance, the boundaries of the study, and further research.
9. Discussion

9.1. Introduction

This section discusses the results and findings of the dissertation in light of the literature. The general research question that this study aimed at answering was: why and how family businesses develop their governance structures? Joint findings are explained below putting together the whole puzzle. This section presents the rationale for the study and for combining methods. Then it discusses the main findings of the study.

9.2. Discussion of Findings

9.2.1. Introducing the Rationale

Zahra and Sharma in their (2004) article make a call for broadening our understanding on family business governance empirically. They encourage the use of broader research methods. Miller in Moores (2009) and Fiss, (2008) note that linking institutional theory to corporate governance can bring interesting insights to both arenas. The aim of my dissertation was to embrace these suggestions, among others. I used Mokken scale analysis, a new method in the field, to explore possible sequences of items pertaining to a latent variable. The main theoretical framework to inform governance issues is institutional theory to shed light on the hows and the whys of developing governance structures in family businesses.

Governance is a key issue in the business world in general, and in family businesses in particular. The debacles of large corporations due to the lack of governance tools to control, monitor and advise the top management team, and to protect and look after shareholders’ interests (Johnson and Greening, 1999; Shleifer and Vishny, 1997), has led to the adoption of governance structures, some of them highly regulated by supra-national institutions. In family businesses, governance structures are highly recommended by academics, consultants and professional associations (Melin and Nordqvist, 2007) and widely adopted by family businesses. This infers that family businesses may conform to institutional pressures (DiMaggio and Powell, 1983) to adopt certain governance structures as they look for legitimacy in their external environment (DiMaggio and Powell, 1983; Tolbert and Zucker, 1983) and sometimes also in their internal environment.
Research in family businesses highlights the need to develop governance structures to efficiently manage family and business spheres (e.g., Aronoff and Ward, 1996; Neubauer and Lank, 1998) as complexity increases (Gimeno et al., 2010), and as a way to gain resources and accessibility to new opportunities (Arrègle et al., 2012). Most studies concur in that family businesses need a different governance structure compared to non-family firms (e.g., Bettinelli, 2011; Davis, 2008), because family businesses have the additional complexity of managing the family and business systems, guided by different logics - values, norms, principles (Lansberg, 1983), family members occupy multiple roles in the business (Tagiuri and Davis, 1996; Mustakallio et al., 2002), and pertain to the different governance bodies at the same time (Nordqvist and Melin, 2002).

Previous research thus supports the idea that family firms create their governance structures because they either want to appear legitimate toward external stakeholders (e.g., Selekler-Goksen and Öktem, 2009), but at the same time, they need them for different efficiency reasons, for instance internationalizing (Arrègle et al., 2012). So far however very few studies have looked at this phenomenon from a process perspective and we lack understanding about why and how family businesses develop their governance structures (Gersick and Feliu, 2014). This thesis covers these gaps in the literature of family business. In the next sections I discuss the joint findings in light of the existing research and theoretical frameworks.

9.2.2. Understanding the Complete Picture

The combination of quantitative and qualitative research has resulted in the following findings. The general picture shows that family businesses tend to follow a specific sequence when developing their governance structures. They start with business governance and then move to family governance. This is in line with what most scholars suggest when relating lifecycles with the development of structures (e.g., Gersick et al., 1997; Nordqvist et al., 2014; Ward, 2008). The starting point seems logical, because the board of directors is by law a joint administrative body which can be adopted instead of the sole administrator figure. Interestingly, in-depth analysis shows that family businesses indeed start with business governance and then move to family governance, but family businesses follow different patterns when developing their governance structures, and do not necessarily start with the board of directors.

This finding partially supports Nordqvist et al. (2014) theoretical study regarding the different configurations that family businesses adopt depending on their family involvement, but contradict their argument about the inclusion of a board of directors since the beginning. The sequence of moving from business governance to family governance holds and might be related to the generation in charge and the mindset. All of them were in a founding or sole-owner model therefore the board of directors was not an option for them, as they were sole administrators. All of them however had clear the need of professionalizing the
9. Discussion

company at the administrative and operational level (Gimeno and Parada, 2013). This is due to the increasing complexity of the business (Gimeno et al., 2010).

Empirical data from the three cases shows that the adoption of the mechanisms that comprise the governance structure are related to each other as some governance mechanisms trigger the adoption of others, they also enhance the functionality of others. For instance, in the Labor case, the advisory board triggered the family constitution and the board of directors. Similarly, Bau Co. started the process of a constitution pushed by the executive committee and also the board of directors. This finding is particularly relevant to governance literature, as most studies do not relate the different governance mechanisms, as Brunninge et al., (2007) note. This finding is also consistent with Gimeno et al. (2006) who find that the existence of one governance mechanism enhances the functionality of the other.

Looking deeper into the process, it can be observed that the process is not as sequential as it seems. The development and especially the process of institutionalization of these mechanisms go in parallel. The parallel process of developing different arenas suggests the need of institutional work where individuals and particularly institutional champion purposefully act towards driving change in their family businesses (Lawrence et al., 2009).

Findings also show that efficiency and legitimacy reasons influence the level of development of the governance structure. Supporting Fiss and Zajac (2009) findings, it also expands previous studies by showing that efficiency and legitimacy reasons do not necessarily relate to whether the organization is an early adopter or a late adopter, rather both reasons act either simultaneously or in different times in the same family business triggering the development of governance structures. Efficiency reasons may lead to substantive adoption or full institutionalization, whereas pure legitimacy seeking leads to ceremonial adoption. When efficiency reasons and legitimacy seeking are aligned, full substantive adoption or full institutionalization may take place quickly.

As Hauschild and Chandler (2008) argue, efficiency and legitimacy reasons do not explain entirely why structures are adopted. In the in-depth analysis of the cases it emerges that two other factors may influence the development of governance structures in the family business. Learning represents a powerful explanation to understand why governance structures have been developed in a greater or lesser extent. Incorporating learning in the analysis sheds light on the importance of business schools, consultants and professional associations, among others, as supporting tools to accumulate knowledge, through seeing other's experiences, and learning from best practices (Beckman and Haunschild, 2002; Westphal and Zajac, 1994). Family businesses are prone to learn from others, and thus they may adopt structures they see are useful in other organizations (Argote, Beckman and Epple, 1990) and adapt to their needs, not just imitating without reflecting.
Power also appears to play an important role in the development of governance structures in family businesses, because it redefines power relations. As Fiss (2008) explains, it may be difficult to understand governance issues without taking power into account. In this dissertation, the focus on power shifts from the field or organizational-level to the individual level, where power relations are defined through the institutionalization of governance structures within the family business. Perpetuation of power can be seen for instance in the adoption of family constitutions written unilaterally by the dominant generation. This means using institutional arrangements to maintain power. This may happen when powerful actors feel threatened to lose their power position, thus leading as well to the rejection of other governance mechanisms that can dilute this power. In turn, ceremonial adoption of governance structures may happen (for instance the board of directors in Bau Co.). Conversely, the unilateral adoption of a constitution may also lead to ceremonial adoption from family members who did not take part on its elaboration, hence rejecting the power relationship established.

Family businesses adopt ceremonially a governance structure as a response to institutional pressures. This finding supports previous studies on strategic responses to institutional pressures (e.g. Oliver, 1991; Selekler-Goksen and Öktem, 2009). Ceremonial adoption however is also part of the learning process of developing a structure. Substantive adoption does not happen until there are no efficiency reasons that trigger this development. Full institutionalization usually happens after a period of institutional work where different actors engage in a critical evaluation of the existing structures and search for alternatives (Roberts and Greenwood, 1997) particularly when efficiency needs appear.

Going into more detail, ownership concentration negatively affects the level of development of governance structures. This was evident in the three cases. When the ownership was concentrated in the hands of a solo-owner (e.g. Fluss and Bau) or at least the majority of shares were in the hands of one leader (Labor), the governance structure was as simple as possible, only having an executive committee. As soon as ownership became more dispersed, or at least potentially dispersed, the families developed further their governance structure. Previous research supports this finding highlighting that founding family businesses (Claessens, Djankov, and Lang, 2000; Villalonga and Amit, 2006, 2009) need few governance mechanisms (cf. Nordqvist et al., 2014; Memili, Esra and Chrisman, 2012).

As family businesses moved beyond the founding generation a higher degree of governance development can be observed. In fact when complexity of the family increased considerably family governance was adopted (Gimeno et al., 2010; Nordqvist et al, 2014). An unexpected finding is the fact that a large company with low family complexity develops a family council before developing business structures (Fluss Co.). This contradicts the idea of fit widely extended in the family business literature. A possible explanation can be found in mindsets, family-business logic, and learning. The Fluss Co. was very active learning about...
9. Discussion

how to involve the next generation in the family business. Their mindset is also more family-oriented and their mindset is that of an “emperor” (Gimeno et al., 2010).

Professional associations have been instrumental in the adoption of governance structures, not only because they exercise institutional pressures as shown in previous studies (e.g. Greenwood et al., 2002; Parada et al., 2010), but also because professional associations have been a platform for institutional champions to drive change. These results support Greenwood et al., (2002) who highlight the role played by professional associations in the institutionalization of practices. This finding also supports previous studies in the family business field that show that professional associations influence the adoption of governance practices in family businesses (c.f. Parada et al., 2010). Belonging to professional associations provides institutional champions with frameworks for action (Lawrence, Suddaby and Leca, 2010), resources, networks, information, and legitimation to drive change in the family business (Parada et al., 2010). The role of professional associations in this dissertation is extended particularly in the learning process that influenced family businesses to engage in institutional work and the development of their governance structures. Professional associations can be seen as platforms for learning, as they gather different family businesses who share their experiences and best practices (e.g. Beckman and Haunschild, 2002). While institutional theory usually depicts passive actors who imitate (copy) best practices (DiMaggio and Powell, 1983), learning theories emphasize imperfect learning (e.g. Levinthal, 2000; Miner and Raghavan, 1999), meaning that family businesses do not just copy but learn from others and apply what is useful for them.

Parada et al. (2010) also found that professional associations influence the change of values in such organizations, and highlight the role of an institutional champion in driving change supported by the professional association. Similar observations can be found in the dissertation. However, the model of driving change is extended, showing six steps in their preparation for driving change.

Family and business institutions, which purport their own logic, influence the development of governance structures. The more family-oriented the family business is the less governance structures exist. This finding is in line Gimeno et al. (2006) theoretical argument that a protective orientation is negatively related with the development of governance structures. Orientations change over time. The three cases show a family-orientation in the first generation. As soon as the equality value was broken, the governance structure was developed as shown in Labor Co. The equality value is highly present for instance in Fluss Co., and it is the company that less structure has. This finding partially contradicts previous studies who suggest that the orientation (related to specific values and beliefs) is linked to generational transitions (e.g. Gersick et al., 1997), and as generations pass the values change toward a business orientation. While time is an influencing factor for the orientation to change, specific values such as equality seem to play an important role in determining the family-business orientation.
Another surprising finding is the misalignment of values affecting negatively the development of governance structures. Most studies in the family business field suggest that values and goal alignment lead to a more developed governance structure (e.g. Kotlar and DeMassis, 2013; Pieper et al., 2008). Similar propositions are to be found in institutional theory. For instance Seo and Creed (2002) proposed that the presence of misaligned interests lead to institutional change. Conversely, the cases in this dissertation show that alignment of values and interests is what drives institutional change. Labor Co. shows a high level of values alignment, however they have the highest level of development of their governance structure. Conversely, Bau Co. has shown that values differ between generations. This seems to have delayed the development of governance structures. A plausible explanation is that family businesses that have more aligned values believe in the value of developing governance structures to reinforce their goal alignment and develop together the family business. To develop together the family business family members need different arenas for dealing with different topics.

Business contingent factors like size and internationalization level show a positive relationship with the level of development of governance structures. This is consistent with most studies in governance (Brunninge et al., 2007; Hannan and McDowell, 1984; Ward and Handy, 1988; Arrègle et al., 2012; Scholes et al., 2013). The cases however show mixed results. The three cases are considered large companies as they have more than 250 employees. However the most internationalized company and the largest by far is the less developed in terms of governance structures. A possible explanation for this counterintuitive situation can be attributed to the fact that the mindset is that of emperor model (Gimeno et al, 2010). This means that there is one visible head (even if they are co-CEO in Fluss Co.) that manages and gives the vision to the business. Everything is concentrated on the co-CEOs hands as it were the founding stage. When comparing between cases, the smallest in terms of number of employees and revenues (but still in large in size), Labor Co. has by far the most developed governance structures. Again this can be linked to the mental model of the family who see the business as a corporation (Gimeno et al, 2010).

Institutional workers are reflective and purposiveness (Lawrence et al., 2009). Their work shows different levels of effort depending on their individual context, this is the business family and its circumstances. As Lawrence et al. (2013) note, institutional workers are usually depicted as experts who skillfully manipulate their environment. Family members who engage in institutional work show a different picture, reflecting the cognitive and emotional efforts that this process entails. The unintentional outcomes and even ‘failures’ are also reflected in the family business context.
10. Conclusions and Implications

10.1. Introduction

This dissertation, as noted earlier, aimed at studying why and how family businesses develop their governance structures. The combination of two methods, a quantitative strand with hypotheses development and a qualitative strand focusing on the process of development has led to interesting conclusions regarding the hows and the whys of such a process.

When looking back, I realize this has been a challenging endeavor. Combining opposing ontologies and epistemologies represents an additional effort in reflecting on how to build a single story and to explain a single picture from them. In the following sections I present the conclusions. Then I develop the theoretical implications. I continue with the practical implications. I finalize the dissertation with boundaries and suggestions for further research.

10.1.1. General Conclusions

Family businesses follow a specific sequence when developing their governance structures. The general pattern starts with business governance moving to family governance. The sequence starts with the board of directors, continues with the executive committee, the family council and the family constitution. This sequence seems to be legitimacy driven, leading to ceremonial adoption of some of the mechanisms that comprise the structure. The idiosyncrasies of family businesses enable them to follow their own path. These idiosyncratic characteristics comprise family and business contingent factors, which determine their specific needs in different moments in time (Nordqvist et al., 2014) and lead to substantive adoption or full institutionalization (Kostova and Roth, 2002). Starting with the board of directors does not happen in each case, because this may depend on the generational stage and the mindset, despite the fact that it is somehow legally required and widely prescribed. The sequence is not necessarily linear given that some governance mechanisms trigger others and sometimes they are being developed in parallel.

Developing governance structures in family businesses is a long, reflective process. Time is a relevant variable in such a process, as the institutionalization of governance structures in family businesses can take over 20 years. As it is a continued process, changes are done smoothly if needs are identified beforehand. Changes can be also drastic and fast if a crisis occurs that forces change. This process is triggered on one hand by institutional pressures, when family businesses want to gain legitimacy face to external stakeholders. These pressures
are exercised by powerful institutions such as professional associations (Greenwood et al., 2002; Parada et al., 2010), education institutions (e.g. MBA courses), family and/or business consultants and institutions alike (Melin and Nordqvist, 2007).

Efficiency reasons trigger this process as well. This is because family businesses try to manage the family complexity and their business complexity (Gimeno et al., 2010). These are equally important. The reasons that in general most influence the level of development of governance structures are belonging to a professional association (institutional pressures) and size of the company. In observing the qualitative data it emerges that the size of the company does not seem to be the element that most affects, but the power and knowledge accumulation, come into play.

What comes to light is that family businesses tend to develop their governance structures in response, not only to institutional pressures or efficiency needs - meaning that they have a problem and they come up with a solution- but that they tend to anticipate the needs and work toward building a structure that can support the possible complexities. This is an aspect not contemplated in institutional theory accounts. Not only purposeful actors reflect, decide, drive change, and may in turn modify their institutional environment, but also they are able to anticipate the type of issues they will have to confront in the near and not so near future. This element is probably of high importance in their capacity to drive change in a smooth way. This may be mainly related to knowledge accumulation.

Professional associations play an additional role than just exercising pressures, as they represent a platform for action for family businesses to drive change in their organizations (Lawrence et al., 2009). This means that professional associations offer a network of businesses with similar values and beliefs that constitute a source for best practices, learning from others, and reflecting together. It also provides with information, courses, conferences and similar activities that develop knowledge in family members.

When adopting governance structures only because of institutional pressures, family businesses tend to adopt them ceremonially, decoupling the formal structure (e.g. the board of directors) from the day-to-day practice, e.g. strategic decision making (Meyer and Rowan, 1977). This leads to having a structure that may eventually comply with all legal or prescribed requirements, but it does not comply with its role or function. The question that arises here is: What is the role of a specific governance mechanism? This seems to be related to the meaning that family members ascribe to it. Therefore, full institutionalization of a governance structure may be achieved when family businesses agree on the value of such a structure and internalize it (Kostova and Roth, 2002), the psychological gain for all parties (Berger and Luckmann, 1967) but also on the meaning. But when efficiency reasons come into play, family businesses fully institutionalize their governance structures. This is what makes the governance structure an ongoing structure with ephemeral stability (Hernes and Maitlis, 2010).
When governance structures are adopted because of efficiency needs (e.g. more family members on board; the size is increasing; the company is internationalizing) the adoption of specific governance mechanisms is immediately fully institutionalized, mainly because all interested parties agree on the value of it. However, family businesses also have substantive adoption when the structure complies with all requirements but family members differ on the value of the structure and the day-to-day practice of such a structure is taken to an informal arena by one or more of these members, which usually have the power. Sometimes it can even lead to substantive adoption, but it does not necessarily mean full institutionalization.

The process is usually led by an institutional champion (Parada et al., 2010) who is able to drive change through a reflective process where institutional actors engage in power relations and political negotiations, as these are all embedded within particular sociocultural and historical moments” (Zilber 2008, p. 163). There exists a deep level of reflection when adopting governance structures that has to do with if and when and how to adopt these structures given the interplay between legitimacy, efficiency, learning and power issues.

The reflective process of leading institutionalization involves six steps, starting from becoming aware of the need for change, building legitimacy, creating a collaborative environment so that the co-creation helps in developing shared meanings, if confrontation occurs, work jointly with allies to diminish it, creating a shared discourse and therefore meaning and driving change. Institutional champions do not always pass through the six steps, as legitimacy may already be in place. Similarly, confrontation may not always appear.

It is noteworthy to see how family businesses see the process of institutionalization of governance structures not as something that leads to taken-for-granted assumptions, and rules, but as a process of reflection where past experiences build the present and the present builds the future (Hernes and Maitlis, 2010). It is also interesting to observe that the process is at the end political, where power and interests of the different coalitions of actors emerge (DiMaggio, 1988).

I would like to highlight the importance of temporality or the on-going nature of institutionalization (DiMaggio, 1988). Practices, processes and structures are usually seen as something stable and difficult to change. However, in line with institutional work, structures can be disrupted and changed. In following Berger and Luckmann’s (1967) appreciation of the involvement of next generations to create a social world, I believe that next generations are key actors, especially in family businesses to lead to institutionalization processes. However, these institutionalization processes are in constant motion, becoming different “things” as could be argued by Hernes and Maitlis (2010).
10.1.2. Theoretical Implications

This research gives back to the literature on both, family business and institutional theory. The main contribution of this dissertation lies in the shift from a static view to a dynamic view of governance, highlighting the importance of process and development, instead of the classic view of mere adoption. This process perspective also bridges the actions of purposeful actors with the creation, maintenance and disruption of governance structures.

For the family business field, the main contributions are related to the use of institutional theory to understanding family business governance and a process view to unveil how and why family businesses develop governance structures.

Institutional theory is mainly expanded by understanding the process of institutionalization in family businesses, explaining how ceremonial adoption, substantive adoption and full institutionalization take place; the role of institutional workers in driving change and their reflective process; and the way four different factors affect the institutionalization of governance structures. Theoretical implications are explained further in the next sections.

10.1.2.1. Family Business Field

This study contributes to the family business field by extending knowledge on family business governance. I respond to calls made in the field to extend knowledge in this topic by means of different theoretical frameworks (Miller in Moores, 2009). Some scholars have already started these efforts by focusing on external issues on governance drawing from institutional theory. The work of Nordqvist and Melin, 2002 is a good start to understand how governance structures in family firms are shaped by the pressures of various levels of institutions. They continue with the increasing institutionalization of governance practices in family businesses by highlighting how researchers and practitioners play an important role in shaping and imposing certain governance practices (Melin and Nordqvist, 2007). Empirically the work of Parada et al., (2010) sets the stage to consider professional associations and institutional champions, whileSelekler-Goksen and Öktem (2009) show evidence that Turkish family businesses resist institutional pressures through ‘avoidance’, ‘defiance’ and “manipulation” strategies (p. 193). Currently little knowledge however exists about why and how family business adopt governance structures (Gersick and Felin, 2014). Covering this gap in the literature this dissertation contributes to this line of research by opening the black box of the process of developing governance structures. A key contribution of this study thus is changing the approach to governance from a static to dynamic view. This is possible to do with the process perspective taken to understand how and why family businesses develop their governance structures.

While there are some studies that dig deeper into what the triggers are for institutionalizing governance structures and practices in family firms (e.g. Melin
10. Conclusions and Implications

and Nordqvist, 2007; Parada, Nordqvist and Gimeno, 2010), there is still a dearth of understanding how these motives interact in such process. The findings on legitimacy and efficiency reasons explain what makes family businesses develop a specific governance structure. It also highlights the possible steps in this process where ceremonial adoption, substantive adoption and full institutionalization may happen over time (Kostova and Roth, 2002). In understanding the reasons for development, this study also contributes to shedding light on the diverse motivations that lead family businesses to develop their governance structures. These four elements are legitimacy, efficiency, learning and power issues.

By explaining the motives for adopting governance structures, this study extends knowledge on the role of family and business contingent factors in contrast to professional associations and the family-business logic. In that way, it is possible to have a broader understanding of the different motives that lead to developing or not a governance structure. As such it also complements Nordqvist et al. (2014) theoretical study that focuses on family involvement, but does not take into account business contingent factors and legitimacy seeking, or learning and power.

The context is particularly interesting because family businesses, especially those that are not listed or exposed to market pressures are not necessarily highly exposed to institutional pressures for adopting good and effective governance structures or practices, however they do comply with external expectations - why? Reality is that family businesses do not only comply with external expectations but they draw resources and inspiration from professional associations who are the major prescribers of institutionalized structures.

10.1.2.2. Institutional Theory

As Tolbert and Zucker (1983) affirm in their study of institutional sources of change of civil service reforms, there are two main approaches that deal with why and how organizations adopt and institutionalize their structures. The first one has to do with rational choices looking for efficiency, and the second one is about legitimacy seeking. The authors further argue that while these two approaches can be compatible, they have seldom been studied together in the same empirical study. Their study is probably the first or at least the most important in integrating both approaches (Kennedy and Fiss, 2009). Kennedy and Fiss (2009) go further and suggest that most studies have treated efficiency and legitimacy seeking as opposing and incompatible. From Tolbert and Zucker’s (1983) study, there have been other studies that applied their framework for investigating how practices are diffused (e.g. Baron, Dobbin, and Jennings, 1986; Pangarkar and Klein, 1998; Westphal and Zajac, 1994), however only recent efforts have been made to address this important issue (Kennedy and Fiss, 2009; Lounsbury, 2007).

This dissertation follows these calls and studies together legitimacy and efficiency needs. Differing from previous studies, I do not study early or late adopters, and I concentrate on how these two forces influence the development
of governance structures in the same organization, the family business. Results contradict previous studies that suggest that efficiency and legitimacy issues are pursued by either late or early adopters (cf. Kennedy and Fiss, 2009; Lounsbury, 2007), by showing instead that there is interplay of those two forces and they will act on the same “adopter” in different points in time or even at the same time when efficiency needs and legitimacy needs are aligned.

Hence, the main contributions of this thesis in regard to the previous arguments are that family businesses are an interesting setting to understand how both sources of institutionalization (legitimacy and efficiency reasons) interplay. This study shows that family businesses are influenced by both, efficiency and legitimacy seeking at different or even in same moments in time, leading to a different level of development and institutionalization of governance structures. On a general level this study may confirm what Tolbert and Zucker (1983) found.

Inferring that family businesses may at some degree want to comply with external expectations in terms of governance structures, they tend to look for legitimation, the adoption is influenced mostly by professional associations, consultants and academics (Melin and Nordqvist, 2007) that prescribe these governance structures as a set of structures that lead to better performance or even competitive advantage (Carney, 2005). In fact, quantitative results show that legitimacy reasons (using professional associations a proxy for diverse institutional pressures), influence more than any other efficiency reason. This is something corroborated in the qualitative study which shows in the three cases that professional associations are not only a source of institutional pressures, as previously mentioned, but also a source of resources, inspiration and legitimacy.

Further, this study contributes to the literature on institutional theory by delving deeper into decoupling and substantive adoption. I show that in family businesses the process of institutionalization of governance structures varies in the degree of adoption from ceremonial adoption, to substantive adoption to full institutionalization. It is a process where organizations may move in a continuum from one side to the other. They may also start directly with full institutionalization when all parties involved agree with the value of the structure (Kostova and Roth, 2002).

This study shows that family businesses institutionalize their governance structures reflectively. Micro processes of highly institutionalized structures as is the case of governance ones seem to be long and especially can show power and interest fights between family members. Structures become fully institutionalized only when everyone is “onboard” which might lead to those structures seemingly being taken for granted. As is the case in new practices like TQM sometimes family businesses start with symbolic adoption. One major difference here is that it is both efficiency needs and legitimacy seeking that influence the adoption and further institutionalization of governance structures. Whereas most studies showed an incompatibility of those triggers, this study in line with Kennedy and Fiss (2009) show that they go hand in hand. Moreover this study shows that they
are not necessarily related to early or late adopters, but they influence the same adopter in either different or same moments in time.

Following institutional work assumptions I assume that actors involved in the institutionalization of governance structures are reflective and decisive, therefore I try to understand their “capacity and intent to create, maintain and alter institutions” (Lawrence et al., 2009, p.6). This is evidenced in the role played by an institutional champion who is highly engaged and committed toward driving change in the organization. This dissertation expands our understanding on institutional work by showing the different levels of effort that institutional workers engage in when trying to develop their governance structures. The cognitive efforts are mainly connected to their learning process, while their emotional efforts are connected to their intention to engage other family members in the process dealing with power issues, among other things. The usual depiction of institutional workers as experts who skillfully manipulate their environment (Lawrence et al., 2013) and succeed in their purpose, does not appear in the family business context. Family members who engage in institutional work show a different picture, reflecting, not only their efforts in driving change but also in the unintentional outcomes and ‘failures’ they face when dealing with institutional change in the family business.

Digging deeper into the institutional triggers for creating and further developing governance structures, it covers some of the gaps mentioned by Kennedy and Fiss (2009) in terms of practice diffusion and the need to understand the logics of adoption and implementation in a processual way. The study shows that family businesses will comply with institutional pressures, however they will do it ceremonially, as a façade for external stakeholders. It also shows to what extent they do follow this adoption ceremonially and when and why they move from a ceremonial adoption (decoupling) to a substantive adoption. Finally, and in line with the latter it expands our knowledge on decoupling and substantive adoption which is not yet fully explored in the institutional theory literature (Boxenbaum and Jonsson, 2008).

There are three main elements in the process of institutionalization of governance structures that are relevant but not fully explored in institutional theory. First of all, family businesses when institutionalizing their governance structures work in a learning process mood. This means that the whole process of institutionalization is based on previous learning. This element is important to consider as institutional work refers to the capacity of individuals to change, disrupt and maintain institutions (Lawrence et al., 2009). Yet how can they do this if they do not learn throughout the process to continue driving change?

Second, interests and power are of high relevance when implementing governance structures. On the one hand, there are not only institutional pressures coming from external stakeholders, but also internal pressures. This is that family members have their own interests and agendas and this is something the institutional champion needs to manage to get everyone onboard - how to manage different interests and explain that not everyone gets what they want.
The art to achieve full institutionalization is a work that requires skillful individuals with “left hand” and high self-esteem.

**10.1.2.3. Corporate Governance**

This study challenges the literature on corporate governance by questioning the taken-for-grantedness on the existence of a governance structures under the traditional lenses of agency and stewardship. Most of the studies in corporate governance take for granted that having a board of directors (e.g. with externals, meeting frequently) is a synonym of institutionalization of the mechanism and therefore the effectiveness of it is assured, while this is not the case in the context of family business as seen in this study. Having external members in the board and having minutes, agendas and all legal requirements does not mean that board functions at all, because the adoption may be ceremonial.

This study answers partially the call made by Coles, McWilliams and Sen (2001) by examining how family firms choose different governance structures that not only fit their environment (legitimacy needs) but also fit their internal needs (efficiency needs). This study also corroborates and extends Corbetta and Salvato’s (2004) study where they show that “one size fits all” governance does not work in family firms. While they focus on boards, this study shows that there exist different paths to develop governance structures in family firms given their heterogeneity and unique characteristics.

By addressing this study with a process perspective this dissertation assumes that governance structures change over time (Langley et al, 2013) instead of being fixed structures created and “ready to use”. This study extends the notion of what a governance structure is in the sense that it sees governance structure as ongoing events where stability and change come to play. This means that governance structures change when the meaning ascribed to each governance mechanism changes over time depending on the needs of the family and other contingencies.

Recent research suggests that there is a need for studying more in-depth governance integrating different theoretical perspectives and contingency variables (e.g. Daily et al., 2003; Hillman and Dalziel, 2003). The use of institutional theory and the combination of legitimacy and efficiency reasons, with the emergent learning and power issues provide interesting insights to governance and its development in privately-held family businesses.

**10.1.3. Practical Implications**

This study provides some relevant implications for practitioners- including family members, and advisors. First, the study shows that governance structures are not just adopted, but undergo a process of development that can take two or more decades. This consideration may help family members envision that adopting governance structures may be a difficult and long process. This process can be difficult because it entails power issues that require negotiations, redefinition of
coalitions, and creating a shared understanding of the value of the governance structure to be adopted. In addition, the process may result painful, as it requires prioritizing the interests of some actors over the others. Practitioners, particularly advisors, may need to consider, that “a one size fits all approach” does not work in the family business given their idiosyncratic characteristics. Advising families to write a constitution or to create a performing board of directors without understanding the family, their values, interests and mindsets may result in building useless structures that can generate more costs and unnecessary conflicts within the family business. It can also result in rigidity in the governance structure adopted, when governance structures need to be flexible and changing over time to adapt to the family business needs.

10.2. Boundaries of the Study

To carry out this study some boundaries have been delimited to be able to cover the research question. The study focuses on Spanish privately-owned family businesses. The access to this type of companies is very difficult. This is why I rely on an existing database created for other research purposes. In relying on this database the variables I use are available either in their original form or I have constructed a variable based on existing variables to capture the dimensions I looked for. This constrains the self-development of measurement scales. The possibility to use existing data helps in enhancing data reliability since these variables are already operationalized and validated variables.

I use three Spanish cases that are part from a larger project. This has been useful throughout the process as I have created a long-lasting relationship with the business families allowing getting as much information as possible in different points in time, adding the possibility to follow them longitudinally via observation and several interviews with key informants.

Combining both approaches in one study (quantitative and qualitative) gives a more complete and complementary picture, but it is challenging. In addition, the depth in each strand may result in being shorter.

10.3. Limitations and Suggestions for Future Research

Even though this study aims to cover a complex question by means of a multi-method approach, and the findings that emerge may be interesting contributions to the academic research as well as to practitioners, the study is not without limitations.
The quantitative data used is cross-sectional in nature, which has some implications. First, causality cannot be directly inferred. Second, the process is not directly observable but inferred from the Mokken scale analysis that allows testing whether there is a sequence in a set of elements that are part of a latent variable. These issues have been partially offset with the combination of a qualitative study which provides the elements to observe causality, and the process of development can be fully observed. However, the use of panel data could develop further the study on the sequence and process of development of governance structures from a quantitative approach.

I rely on data from Spanish companies which suggests a specific institutional and cultural context. Research shows that regional cultures and institutional context may affect the way governance structures are set (Morck and Steier, 2005; Steier, 2009). Replicating the quantitative study in other countries could shed light on the differences that may arise in the process of development of governance structures, making possible comparative studies among countries, and also among cultures and institutional environments (for an example of a cross-country study, see Lee and O’Neill (2003).

The study is based on existing variables within a large database. This reduces the possibility to include other governance bodies such as shareholders’ assembly, other family meetings, audit committees and other governance bodies mentioned in the literature. While the four mechanisms mostly used and prescribed are included in the study, the topic could benefit if new variables are included to see if other governance bodies belong to the same scale and are part of the sequence found.

In a similar vein, the study relies solely on formal governance mechanisms. Previous studies show the importance of informal governance and how it substitutes formal structures (e.g. Mustakallio, et al., 2002; Steier, 2001). The topic could be enhanced if informal mechanisms are taken into consideration to understand the possible absence of certain formal mechanisms in some cases where it seems the optimum.

The qualitative strand uses three Spanish case studies, which suggests similar limitations as in the quantitative strand regarding regional differences. By replicating the qualitative study in different countries, interesting results could emerge as to what extent national culture and different institutional environments will condition the pattern of development of governance structures, and whether legitimacy or efficiency reasons prevail more and when.

Findings in this dissertation indicate as well several avenues for future research that seem promising. Findings in the qualitative strand show that family firms follow different patterns even though there is a similar sequence adopted. Following Nordqvist et al, (2014), the topic may be further analyzed by clustering family businesses in categories that can better show their heterogeneity and hence to observe if they follow different patterns as shown in the cases.
10. Conclusions and Implications

The surprising fact that age does not directly influence the level of development of governance structures casts the question as to what extent age could be a moderating variable in the development of such structures. Research that could evaluate how age impacts on structure development could open up new avenues for understanding life cycle roles in that matter.

More intriguing results from the fact that the three cases being large in size (but greatly differing in size among them) show completely different patterns in the level and the pattern of adoption of governance structures. Given that size is the variable that usually explains the development of organizational structure, how can it be that they do not show either similar patterns or at least similar levels of development? Even more, how can it be that the largest company has the less structure, given that theoretically large family businesses require more structure? Thus, a study that would focus on how organizations deal with greater size with low structure could depict the differences in values and goals as well as the profile of their CEOs.

Complementary qualitative research could be carried out including family businesses not belonging to professional associations. In doing so, new insights could be gained on the real impact and influence of the voluntary professional associations in the development of governance structures. Is it only professional associations that trigger this process? Or is it a more macro institutional environment that may cause the same effect?

The study shows a different perspective in terms of how governance structures are developed by applying a being ontology. Suggesting that governance structures are constantly changing over time, opens up a new window for understanding governance structures from a different angle. Further studies could follow this line of inquiry by relying on process theory and linking it to sense making (Weick, 1979). As Hernes and Maitlis (2010) suggest, sensemaking is intertwined with process studies, and it can contribute to building further process theory.

Our understanding on the development of governance structures could also be expanded by using a becoming ontology (c.f. Helin, 2001). This ontology suggests that things are made by processes, being in constant movement evolving and becoming something else (Hernes, 2007). Instead of focusing on the events per se, events may be examined through smaller events focusing on the interaction and experiences of particular individuals, in a certain period in time. This makes the subject changeable over time even though some qualities may persist longer than others (Langley et al., 2013). This approach can help in shedding light on the micro-processes on the making of these governance structures. This dissertation covers part of it, but more can be developed in relation to this topic.

In relation to institutional champions, this study shows the role they play in driving change and how they are connected to their broader environment. New studies could shed light on something that still remains in the air. This is whether
family businesses really follow conventions or whether they are shaping these conventions within their organizational field.

Institutional work accounts could be further expanded by shedding light on how learning and power issues affect this process. Learning theories could expand institutional theory further in relation to institutional work (Haunschild and Chandler, 2008). Power issues are also ingrained in corporate governance and institutional theory, therefore bringing back power theories (Fiss, 2008) and explore how power and power relations affect institutional work it may expand knowledge on the degree of effort institutional workers engage in, and how they deal with these issues.

By exploring further the institutional workers’ reflective process by means of qualitative or ethnographic studies could bring new insights on how this process unfolds over time (Lawrence et al., 2013).
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## Appendix

### APPENDIX 1. Family-Business Logic Construct

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<th>Statement</th>
<th>1 (Completely disagree)</th>
<th>2 (Disagree)</th>
<th>3 (Indifferent)</th>
<th>4 (Agree)</th>
<th>5 (Completely agree)</th>
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<td>I would like as many family members as possible to work in the family business</td>
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<td>It is bad to make differences between siblings in the family businesses</td>
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<td>Family members should learn a profession that is useful for the family business</td>
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<td>The family business is a vehicle for creating cohesion and unity</td>
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<td>If a child does not find an adequate job elsewhere, it is reasonable that he/she works in the family business</td>
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