Keeping it in the Family:
A case study based inquiry into the role of governance mechanisms in the maintenance of family power and influence in fifth or more generation private family companies

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Abstract

This inquiry examines the role of contractual and relational governance mechanisms in the maintenance of family power and influence over decision making in multi-generation private family companies. Taking a naturalistic/constructivist perspective, a case study methodology was adopted to examine the impact on company decision making of governance structures created by three companies. At the multi-generation stage family shareholding may be diffused and the bonds between the business owning family and the company, as well as within the family itself, weakened. Non-family individuals may exercise power through management and board roles. Measures of familiness, such as the Family Influence on Power, Experience and Culture (F-PEC) scale (Klein, Astrachan et al 2005) and the Family Influence Familiness Scale (FIFS) (Frank, Kessler et al 2017) reflect a conception of family power and influence based upon the family's continuing physical dominance of management and the board. Such dominance is required because decision management and control is vested in management and the board. Family power and influence diminishes where management and the board are controlled by non-family individuals. This thesis challenges this conception and presents a more compelling explanation of family power and influence over company decision making in multi-generation family owned companies. The thesis explains how both formal and informal relational governance mechanisms enable the family to retain power and influence over company decision making. Specifically, relational governance mechanisms are conceptualised as sources of episodic power, which provide the family with alternative routes to power and influence over company decision making. This has theoretical implications for agency theory, the socioemotional wealth model, the familiness and the family company competitiveness literature. These theoretical positions ignore the episodic power the family may exercise in the company through relational governance mechanisms and the thesis presents a basis for rethinking theoretical perspectives in future research.

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Declaration

I declare that this thesis is a presentation of original work and I am the sole author. This work has not previously been presented for an award at this, or any other university. All sources are acknowledged as References.

Chapter 1: Introduction

1.1 Aims of the Research

This inquiry examines family shareholder power and influence in fifth or more generation private family companies. It seeks to contribute to our understanding of how business owning families employ different types of governance mechanisms to enable the family to exercise power and influence over decision making in the company.

Family companies are different to other corporate entities because of the presence of the family within the organisation. The interplay of parents, children, siblings and cousins within a corporate context may impact upon corporate objectives, relationships with the external environment, and may give rise to particular competitive advantages (Johannisson and Huse 2000; Carney 2005; Gómez-Mejía, Haynes et al. 2007; Berrone, Cruz et al. 2012).

The differences arise from the unique relationships. Tagiuri and Davis (1996) have captured this schematically in the following manner:

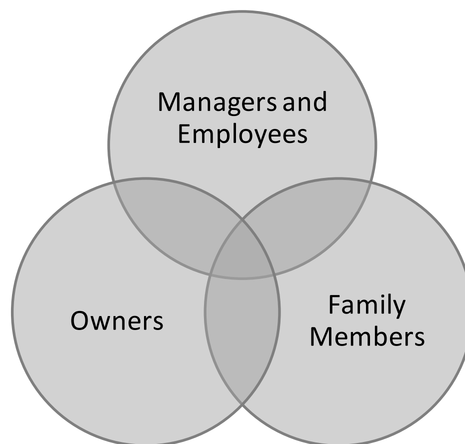

Figure 1: The relationship between family members, owners and managers and employees. (Tagiuri and Davis 1996)

Tagiuri and Davis' interest lies in the areas of overlap and the role of the family member as relative, as owner and as manager. The company's management is affected by matters such as the shared identity of the family, the life-long common history, emotional involvement and confusion, the private language of relatives, mutual awareness and the meaning of the company to the family. There is an ambivalence to the impact of family involvement, which Tagiuri and Davis explain in their article as bivalent attributes. The focus on intimate family

involvement with the company remains the basis of Tagiuri and Davis' analysis, a significant factor being the relationships developed within a family that has lived with one another all their lives.

The conception of the family presented by Tagiuri and Davis reflects the assumptions made in much of the family company literature regarding the closeness and intimacy of family relationships. These assumptions, however, firmly locate this conception of the family in the realm of first and second generation family owned companies. But what about family owned companies at later stages in the company's life cycle? What is the position if relatives are not working together in the company? What if they have never lived with one another? What if they have never even met and are linked simply by one of many blood line histories that has led to that individual being a shareholder? This inquiry examines family power and influence in such circumstances.

The exercise of family power over company decision making is important because it can be a source of competitive advantage and is identified as the source of 'familiness' (Carney 2005, Klein, Astrachan et al 2005, Frank, Kessler et al 2017). The barriers to the family retaining power and influence in multi-generation family companies is explained in the family company life cycle literature (Gersick, Davis J.A. et al. 1997, Lane, Astrachan et al. 2006, Westhead and Howorth 2006, Le Breton-Miller and Miller 2013). This literature anticipates a lineal development of the company through three main stages. The first stage, the parent stage, is centred on the original founder. The second stage represents the first inter-generational transmission event and reflects a company passing to second generation siblings. The third stage, the cousin consortium stage, is concerned with the further transmission to the third and subsequent generations and reflects the development of a shareholder group of cousins and more remote family members.

In multi-generation family cousin consortium companies, relationships intra-family and between the family and the company may be more remote and complex. In particular, shareholder diffusion may lead to a weakening of family bonds, limited involvement of family members with the company and the engagement of non-family managers. Generations may be linked by blood and nothing else. If family power and influence is beneficial in first and second generation companies it is necessary to understand how such power and influence can continue to be exercised in fifth or more generation companies given such conditions. In particular, it is important to know who has such power and what the sources of power are.

As noted above power and 'familiness' is linked in the literature. Understanding how companies retain their uniqueness as family companies is important given the role played by family owned companies in the UK economy. A recent assessment of the role of family businesses in the UK economy by the Institute for Family Business Research Foundation and Oxford Economics (IFB research Foundation 2020) provides evidence that there were over 5.1 million family businesses in the UK in 2018, this representing 87.6% of all private sector SME firms.

This inquiry specifically examines fifth or more generation family owned companies as they are more likely than lower generation companies to display significant inter-generational shareholding diffusion and more complex family shareholder profiles. The IFB Research Foundation (2020) report estimates that, in 2018, 5.1% of all family SMEs were third or more generation companies and only 1.8% were at the fifth or more generation stage. Fifth or more generation family companies represent a very small proportion of family owned businesses and their longevity may reflect arrangements adopted to manage family/company relationships and preserve family power and influence.

This inquiry will examine the extent to which contractual and relational governance mechanisms are sources of family power and influence in the company. The exploration of the role of governance is relevant. At the time this inquiry commenced, there was a significant policy debate regarding the need to regulate governance in private companies, including private family companies. The debate focused on the applicability or otherwise of the regulatory structures developed in the listed company sector. It was concerned with the board, its roles and composition, and relationship with shareholders and other stakeholders. Some of the discussion touched upon the impact of familial relationships in private family companies and referred to the need for governance mechanisms that addressed the governance of the family as well as the company. This led to this researcher's interest in exploring governance mechanisms in companies that had managed to survive to the fifth or more generation stage. In particular, it led to a wish to understand how such mechanisms enabled the family to retain power and influence in the company and successfully manage complex family and company relationships. Chapter 2 will note that the policy debate was concluded during the course of this inquiry and explain the current regulatory provisions affecting private family companies. The chapter will highlight that regulatory provisions only refer to the board, the single contractual governance mechanism. Regulations do not contemplate the need for or give a role to relational governance mechanisms in relation to the

company. This thesis will challenge the position taken by regulators and explain why the role of relational governance mechanisms in private family companies needs to be re-evaluated.

There is no single theoretical lens through which governance, and in particular family company governance, can be examined. The literature review below will discuss the applicable multi-theoretic perspectives. This thesis argues that these theories are power theories as they are concerned with the ability of one party to influence the behaviours of others. A focus on power, and in particular episodic power, is applicable because it is concerned with overt acts that shape the behaviour of others.

The thesis pays particular attention to the conception of power and influence presented in the familiness literature. This conception is relevant to conditions where family ownership and control are separated, as may be the case in multi-generation family companies. Two similar conceptions of family power and influence are presented in the familiness literature: the Family Influence on Power, Experience and Culture (F-PEC) scale (Klein, Astrachan et al 2005); and the Family Influence Familiness Scale (FIFS) (Frank, Kessler et al 2017). Both scales seek to measure aspects of familiness and both conceptualise and measure family power and influence in terms of the numerical superiority of family members as managers or board members. The scales reflect the position presented in the governance regulatory provisions where the board is the sole contractual governance mechanism through which power and influence is exercise over the company.

The logic underlying these conceptions of family power suggests that the family will retain power and influence over company decision making where the family controls both management and/or the board. Alternatively, the family will lose power over company decision making if it does not control management or the board.

This thesis will challenge this conception of family power. It will demonstrate that participation in management and the board are not the only sources of decision making power in a family company open to family shareholders. Specifically, it will show how formal and informal relational governance mechanisms are alternative sources of family shareholder power and influence. This may be so even though the family does not physically dominate either management or the board.

1.2 Research Questions

This inquiry examines the following research questions:

a) What forms of contractual and relational governance mechanisms are adopted by fifth and more generational private family companies?
b) How do governance mechanisms enable business owning families exercise power and influence over company decision making?

As part of this research the following specific issues will be addressed:

a) How do governance mechanisms enable business owning families exercise power and influence over the company's strategic goals?
b) How do governance mechanisms influence the management of intra-family relationships, and in particular conflict?
c) How do relational governance mechanisms influence company decision making?

1.3 Methodology

Employing a case study methodology, this inquiry adopts a naturalistic/constructivist position to understand and construct meaning in relation to each case study. Each case study will provide rich descriptions that will result in a series of working hypotheses which will reflect the uniqueness of the case studies but which provide insights for other multi-generational family companies. The working hypotheses, presented as discussion points in chapter 7, will enable reflection on particular theoretical perspectives. The choice of case study companies was purposeful, and each was chosen because they are of interest in themselves. The case studies are not seen to be representative of a group or type of fifth or more generation family company. The case study data collected includes public data filed with Companies House, company and other documents, and interview data. Interviews were conducted with family members from different generations and non-family members involved in the companies. The insights revealed through the case study analysis demonstrates how family shareholders can retain power and influence in multi-generational family companies even where there is shareholder diffusion and non-family managers are involved in management and the board. In doing so, the thesis will challenge current conceptions of the sources of family power and influence in family owned companies and will demonstrate the potential for relational governance mechanisms to be sources of power and influence over company decision making.

This has theoretical implications for the agency, socioemotional wealth, familiness and family company competitiveness literature.

1.4 Contribution

As previously stated, the thesis challenges existing conceptions of family shareholder power by showing how family shareholders may use relational governance mechanisms to retain power and influence over decision management and decision control (Fama and Jensen 1983) even where non-family members dominate both management and the board. By explaining how relational governance mechanisms are sources of episodic power, the thesis demonstrates how family shareholders exercise power over company decision making, even where family engagement in management and the board is minimal.

By highlighting the fundamental importance of relational governance mechanisms in multi-generational family companies, the thesis highlights weaknesses or omissions in a range of existing theories in the family company domain.

a) In the context of agency theory, relational governance mechanisms have not previously been regarded as a source of episodic power within the company. However, this inquiry demonstrates how relational governance mechanisms can be a source of such power. Legitimacy is given to family members or family controlled bodies other than company management and the board to exercise both decision management and decision control. Relational governance mechanisms are therefore an additional means by which the family can address both horizontal and vertical agency issues in the company (Villalonga et al 2015).
b) Additional agency costs relating to moral hazard, hold up and adverse selection may arise in family companies because of altruistic behaviour (Lubatkin, Schulze et al 2005). The inquiry will demonstrate how the family may use relational governance mechanisms in cousin consortium companies to manage such agency issues and exercise self-restraint and address horizontal agency issues intra-family.
c) The Family Influence on Power, Experience and Culture (F-PEC) scale and the Family Influence Familiness Scale (FIFS) measure family power and influence in a company. They link power and influence to the notion of 'familiness'. The validity of both the FPEC and FIFS scales, however, which define family power and influence in terms of the physical dominance of management and the board, may be challenged as they fail to account for relational governance mechanisms as alternative sources of family

power. The F-PEC and FIFS criteria may incorrectly represent the disposition of power and misrepresent the power and influence the family exercises.

d) In the context of the socioemotional wealth literature, the conception of 'Family control and Influence' presented in the FIBER scale only contemplates power and influence exerted through the family's physical dominance of management and/or the board. The potential for relational governance mechanisms to enable family shareholders to retain power over decision management and decision control is not considered. This dimension of the FIBER scale needs to be re-stated to accommodate the impact of relational governance mechanisms on the FIBER scale's notion of family control and influence. This is important as the FIBER dimensions impact upon the applicability of the socioemotional wealth model to multi-generational family companies. Lim, Lubatkin and Wiseman (2010), for example, argue that the assumed loss of power and influence over decision making by the family in cousin consortium companies means that family shareholders will have risk preferences resembling those of risk neutral investors. The behavioural agency argument of loss aversion, which is fundamental to the socioemotional wealth model, does not apply. The FIBER scale draws from the conception of power reflected in the F-PEC scale. Recognising that the family may retain power and influence over decision management and decision control through relational governance mechanisms, even though few family members are involved in either management or the board, enables cousin consortium companies to continue to reflect loss aversion preferences in decision making in keeping with behavioural agency theory. It explains how and why the socioemotional model may still apply at the cousin consortium stage. It is argued that a major family SEW endowment at the cousin consortium stage is the wish to remain independent of non-family equity investment.

e) Competitive advantages are enjoyed by family companies but Carney (2005) has noted the potential for the 'professionalization of management' to cause the family controlled company to lose the beneficial characteristics of parsimony, personalisation and particularism because of the loss of control over decision making. The identification of relational governance mechanisms as sources of episodic power makes it possible for professionalism not to lead to the loss of parsimony, personalisation and particularism. Companies managed by non-family members may retain the competitive advantages of family controlled companies.

The impact of these theoretical perspectives must be considered in the context of the family company life cycle analysis. This is based on certain assumed conditions. In the case of multi-generation family owned companies, family power and influence in cousin consortium companies is assumed to be absent where the family does not dominate management or the board. In governance terms, for example, this is said to indicate that governance models other than a control model are deemed to be applicable. By focussing only on contractual governance, the linear life cycle model may fail to recognise the impact of relational governance as a source of family shareholder power and influence. The thesis indicates that assumptions underpinning the model are open to challenge and caution needs to be shown in applying the model in analysing company/family relationships (Gersick, Davis et al 199; Lane, Astrachan et al 2006; Le Breton-Miller and Miller 2015).

This research also makes an empirical contribution. This study involves empirical research that has not been done before in the UK. In particular, empirical data has been collected and synthesised relating to governance in three multi-generation family owned companies. It is noted below that many quantitative empirical studies in the family company domain are based on databases of publicly quoted family companies where the percentage of family shareholding is the major indicator of familiness (Pindado and Requejo 2015). Such studies run the risk that although the percentage shareholding is used as a proxy for family control, such control may not exist and conclusions drawn may not be valid. The literature reflects the difficulty accessing detailed data relating to both public and private companies. In this thesis a case study approach was adopted to explore governance in three fifth or more generation family companies to enable rich data to be collected from different sources relevant to an understanding of the governance arrangements in each company. In particular, family and non-family voices have expressed attitudes, opinions and beliefs as employees, managers, directors, shareholders or family advisors. This rich data has allowed a detailed understanding of each case study to be constructed, which has informed the hypotheses developed.

This data has further informed the applicability or otherwise of particular aspects of family company theory and reflections of this form the discussion of the contribution made by this thesis. The empirical data collected has confirmed the heterogeneous nature of the families, the companies and the governance arrangements in multi-generation family owned companies.

1.5 Conclusion and Thesis structure

The discussion above has sought to provide background for the inquiry, has stated the research questions and has identified the contributions the inquiry makes. The thesis is structured as follows.

Chapter 2 provides context by discussing the development of private company governance regulations in the UK. This will demonstrate that regulators have vested in the board a number of responsibilities and obligations in relation to the company. The board's monitoring and control role has been significantly influenced by agency imperatives arising from the separation of power and ownership. The board is the only contractual governance mechanism identified in the regulations and is therefore the only source of episodic power. The chapter will contrast this position with that of relational governance and will note the absence of any reference to relational mechanisms in current regulations. Such mechanisms are ignored by the regulators as their role is seen to be in relation to the governance of the family. The thesis will challenge this conception of the role of relational governance mechanisms.

Chapter 3 contains the literature review. This presents literature relevant to the family power conception set out above and examines the nature of relational and contractual governance. Particular attention is given to the board and to theories which reference board power, such as agency, stakeholder and stewardship theories. The conception of family power has been drawn from or reflected in the governance, power, agency and 'familiness' literature, and links family power and influence to the family's physical dominance of management and the board. The consequences of the loss of control, based on this conception of family power and influence, is discussed in the context of the life cycle, socioemotional wealth, competitive advantage and conflict literature. The theoretical implications of this particular conception of power and influence are profound. In the case of the socioemotional wealth model, for example, current literature appears to deny the applicability of the model to companies where the family does not retain control over management or the board. The critique presented in chapter 3 challenges the assumption underpinning the role of the board and the conception of family power, based on the family's physical dominance of management or the board. In particular, it posits that there are alternative sources of power and influence and these are located in formal and informal relational governance mechanisms.

Chapter 4 presents the methodology, which is located in a naturalistic/constructivist paradigm. Three companies were chosen to explore the research questions. In all three cases, there are

fifth or more generation family shareholders, the families control the majority of the shares and no equity capital has been provided by non-family members. They differ in most other respects. The chapter will set out the epistemological and ontological position of the inquiry, the process of data collection and the basis of analysis. The chapter will demonstrate how the case studies enable a rich understanding to be developed of each case study, 'thick descriptions', that lead to a series of working hypotheses which will be the basis of emergent theory. The working hypotheses are presented as discussion points in chapter 7.

Chapter 5 presents vignettes of each of the case study companies as part of the analysis. This chapter presents details relating to board structure, shareholder contractual provisions, relational governance mechanisms and financial performance drawn from documents filed with Companies House or made available to the researcher. The purpose of this analysis is to introduce each case study and provide context for the further analysis and discussion in chapters 6 and 7.

Chapter 6 contains an analysis of each case study drawing on both the data set out in chapter 5 and additional data collected, particularly interview data. The analysis presents data for each case study based upon three reference points; the power and governance literature; the FIBER scale developed to identify the strength and nature of the dimensions of a company's socioemotional wealth endowment; and a structure for analysing family and company relationships based on four dimensions. The purpose of the analysis is to provide the rich descriptions that address the research questions. Particular attention is paid to the interplay of contractual and relational governance and where decision management and decision control resides in relation to the family and the company. The analysis contrasts the data with the theoretical conception of family power derived from the literature to challenge that conception and identify the additional sources of power in the case study companies.

Chapter 7 draws together the analyses in chapters 5 and 6 to derive working hypotheses that underpin the theoretical and empirical contributions stated above. The nine working hypotheses, set out as discussion points, provide detailed insights into the major finding of this inquiry, that the conception of family power based on physical presence may not hold for multi-generational family owned companies as relational governance mechanisms can be alternative sources of episodic power. The discussion points reflect the theoretical consequences of the challenge posed by this assertion and make particular reference to the agency, socioemotional wealth, familiness and family company competitiveness literature.

Chapter 8 summarises the outcome of the inquiry. It therefore discusses the challenge the findings make to the conception of family power presented in current family company literature and summarises the theoretical implications of this significant contribution. In doing so, it provides insights into sources of family power over company decision making not recognised in current literature. It demonstrates how family shareholders may continue to exercise power and influence over aspects of company decision making despite shareholder diffusion, a lack of involvement in management or the board and the dominance of non- family managers and board members. The argument that power resides in both formal and informal relational governance mechanisms provides a more compelling and comprehensive explanation for the disposition of power and influence exercised in and around the company by family shareholders. It also reveals the limitations and omissions in particular current family company literature. The theoretical implications of the findings are set out as are the practical implications. In considering the broader implications of the findings, the chapter identifies the limitations of the inquiry and makes suggestions regarding avenues of further study.

Chapter 2: The governance regulatory framework for private UK companies

2.1 Introduction

The purpose of this chapter is to explain the regulatory and statutory governance framework applicable to private family companies. It sets out the nature of contractual and relational governance mechanisms and shows how the regulations focus on one particular contractual mechanism, the board. The chapter will note the influence of agency concerns in framing the role of the board and the primacy given to it's role in exercising power over management, through its control and monitoring functions. The discussion will highlight the absence of any specific provisions relating to private family companies. Such companies, particularly at the multi-generation stage being examined in this inquiry, may reflect complex relationships intra-family and between the family shareholders and non-family managers. Their specific needs are not addressed. It will also show how the regulatory structure ascribes no role to relational governance mechanisms. These mechanisms are not considered to impact upon the governance of the company, and are not seen, therefore, as mechanisms through which power and influence over company decision making may be exercised. The thesis, however, will challenge this restricted view of the role of relational governance and will argue that family shareholders may retain and exercise power and influence over company decision making through relational governance mechanisms.

There is no single definition of corporate governance but given the focus on power and influence the Organisation for Economic Cooperation and Development's (OECD 2004) definition has been adopted for the purpose of this inquiry. Corporate governance is defined as:

> *Procedures and processes according to which an organisation is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making.*

The reference to the distribution of rights and responsibilities and the rules and procedures for decision making make this an appropriate definition for an inquiry concerned with the

governance mechanisms by which family shareholders retain and exercise power and influence over company decision making.

There are two categories of governance mechansism in family companies: contractual governance mechansisms; and relational governance mechanisms (Mustakallio, Autio et al. 2002). Contractual governance is concerned with mechanisms established in the company to develop strategy, manage risk and control and monitor the organisation. The main contractual mechanism is the board, which has been the focus of regulatory development in the public and private company sector. This inquiry will demonstrate, however, the importance family companies may attach to other contractual governance mechanisms, such as shareholder rights and share transfer restrictions found in Articles of Association.

Relational governance mechanisms are said to reflect structures and processes designed to foster good intra-family relationships to support the cohesion of the family in its decision-making processes. Such mechanisms exist outside of the company and seek to manage the family's relationship with the company.

In terms of the exercise of power over company decision making, there is a clear divide between contractual mechanisms, which are seen to be concerned with the governance of the company, and relational mechanisms, which are concerned with the management of the family. This inquiry will examine two aspects of the position taken by those devising regulatory structures. First, it will critically examine the extent to which the board should be regarded as the only mechanism through which power and influence may be exercised over management in private family companies. Other areas of contractual governance, such as shareholder rights and share transfer provisions, will be identified as other potential sources of power. Secondly, the binary categorisation between contractual governance mechanisms operating in the company, and relational mechanisms operating in the family will be challenged. In the context of companies with complex shareholder and manager relationships, such as the multi-generation family companies included in this inquiry, this thesis will argue that there is a more porus and more dependent relationship between contractual and relational governance than is recognised by policy makers.

The binary categorisation adopted by policy makers is reflected in the relational governance literature. Suess' (2014) work defined family governance as a set of:

> *voluntary mechanisms established by the business family with the primary aim of governing and strengthening relations between the family and the business, as well as the relationship between the members of the business family itself* (p.139).

This is consistent with Mustakallio, Autio et al's (2002) definition of relational governnance. Relational governance is said to draw on social capital theory and is based on the creation and deployment of social capital embedded in family relationships. It is expressed through social interaction and, in governance terms, is represented by mechanisms such as informal annual meetings, a family constitution, family councils, a family office and family protocols. In contrast, contractual governance is reflected in formal relationships connected with ownership and management, and in particular the composition of the board of directors and the formal engagement of third party outsiders in management roles (Martin 2001, Mustakallio, Autio et al. 2002).

This chapter discusses the extent to which, if at all, the governance regulatory framework developed in the UK addresses both contractual and relational governance issues and provides a context for both the discussion of the family company governance literature and the family company literature relevant to this inquiry. It is important to understand this context and how governance regulations have developed because it helps to explain the prevalence of particular contractual governance mechanisms, particularly board structures established voluntarily by private companies, in the absence, until recently, of specific regulatory provisions.

2.2 The Regulatory Structure

In the UK, the nature and form of private company governance regulation has been an area of debate amongst practitioners and academics and in December 2018 specific regulations came into force. Governance regulation in the private company sphere attracted the attention of policy makers because of the perceived poor management practices in a small number of high-profile UK private companies, such as Sports Direct and BHS. Policy makers and academics (Morck 2005, Pindado and Requejo 2015) have commented on the significant contribution large private companies make to economies and of their importance to the communities in which they operate. Significant risk attaches to private company scandals, malpractice and corporate failure, and governance regulation is regarded as an appropriate mitigating response.

It is not surprising that the initial inspiration for the proposed regulatory developments in the UK private company sector came from policy developments in the listed company sector. The development of formal corporate governance codes in the UK began with the Cadbury Committee (Cadbury 1992) and the publication of the committee's report in 1992. Subsequent reports (Greenbury 1995, Hampel 1998, KPMG 1999, Turnbull 1999) explored aspects of governance not initially covered by Cadbury. In May 2000, the Combined Code: Principles of Good Governance and Code of Best Practice (2000) was issued. This captured Cadbury's recommendations and the subsequent policy reports. The Code (2000) has been periodically revised and The Financial Reporting Council issued the current iteration of the UK Corporate Governance Code (2018) in July 2018. Governance developments in the UK have influenced the development of governance codes across the world and similar provisions can be found in regulations in many jurisdictions.

The current revised G20/OECD Principles of Corporate Governance (2015), for example, were adopted and endorsed in 2015. These principles address, inter alia, the rights and equitable treatment of shareholders, the board, disclosure and transparency, the role of stakeholders and the position of institutional investors, stock markets and other intermediaries. The focus is on contractual governance mechanisms. The headings provide the basis of codes in numerous jurisdictions and they are reflected in the provision of the UK's current Corporate Governance Code (2018), which has chapters covering Leadership and Purpose, the Division of Responsibilities, Composition Succession Evaluation, Audit Risk and Internal Control and Remuneration.

The detailed framework for UK governance of PLCs has the board at its heart. The Corporate Governance Code (2018) includes the following provisions:

> a) there is a separation of the role of Chair and CEO. The Chair is independent and manages the board;
>
> b) the company is strategically managed by a board with at least three sub-committees: an audit committee; a remuneration committee; and a nomination committee;
>
> c) the board is composed of executive and non-executive directors. There are no limits to the number of directors but the Code requires that at least half of the members of the board, excluding the Chair, are independent non-executive directors.

d) independent non-executive directors run the sub–committees of the board and they may meet with the Chair independently of the executive directors.

The focus of the Code is on the composition, responsibilities and operation of the board, and, in particular, the board's monitoring and control role and its strategic role in ensuring the long-term performance and continuity of the company. The major imperative, first stated by Cadbury and subsequently developed, has been to bring to the board non-executive directors who are independent of a company's executive management team. Such individuals, through their membership of the key committees, exercise power and control over the internal controls and risk register of the company, the audit function, the level of executive rewards and board succession. They are there to protect the interests of the shareholders. From a theoretical perspective, agency theory has been very influential in faming the role of the board, particularly in relation to its power to address issues arising from the diffusion of shareholding and the engagement of non-shareholding managers. In regulatory terms, the board is the ultimate source of authority within the company.

The framework created in the UK and replicated elsewhere reflects, therefore, a response to the perceived problem arising from the separation of control and management in publicly traded companies. The need to create structures where independent non-executive directors at the top of a company perform control and monitoring functions on behalf of the shareholders arose in response to a series of corporate failures and scandals in the 1990s in the USA. UK and Europe. Further, the focus on Board role and responsibilities is regarded as an appropriate response to the failure of other regulatory regimes, such as statutory audit, to control the actions of managers and executive directors. Given the focus on the protection of shareholder interests, it is understandable why agency and shareholder theories are the dominant theoretical perspectives informing policy development.

As noted above, concerns over poor management and control and the experiences of corporate failure in the listed sector have similarly been the drivers for regulation in the private sector. In the UK, professional bodies, such as the Institute of Directors, have strongly argued the need for greater regulation.

The Institute of Directors' code, Corporate Governance Guidance and Principles for Unlisted Companies in the UK, developed in 2010 with the ecoDa, the European Confederation of Directors' Associations (herein referred to as IOD/ecoDa (2010)), reflects a wish to align governance in private companies with that of listed ones.

The Code is based on 14 Principles. The first nine are applicable to all companies, while the last five are suggested for larger or more complex organisations, including larger family companies. The first nine principles reflect the overarching concerns of listed company codes: the creation of an effective governance framework; the development of an effective and competent board; a focus on internal controls and remuneration; and the development of dialogue with shareholders. The ninth Principle specifically refers to family companies and suggests family-controlled companies should establish relational governance mechanisms to organise company/family relationships and promote *"coordination and mutual understanding amongst family members"* (p.7). This reinforces the accepted position that relational governance mechanisms are concerned with the governance of the family and not with the governance of the company.

The Phase 2 Principles align private company governance with listed governance by suggesting the separation of the Chair/CEO role, the appointment of a significant group of independent non-executive directors, and the creation of audit, nomination and remuneration committees. The Code anticipates the applicability of the Phase 2 provisions in conditions where shareholder/manager relationships change as non-family managers are brought into the company, shareholding is diffused across a greater number of family members, external financing introduces non-family shareholders and the business' portfolio becomes more complex and riskier. These are some of the complex circumstances this inquiry examines in the context of the three case study companies. In all three companies, non-family managers are involved in management, all have experienced shareholder diffusion and in one case two families share ownership.

Despite other potential board roles, imperatives around monitoring and control strongly underpin the development of the Code. This focus is reflected in aspects of the Code's Executive Summary. Although the summary begins by emphasising the Code's role in helping companies to build reputation, long-term continuity and success it ends by referring to the interests of shareholders with restricted rights to sell their shares, minority shareholders, external stakeholders and society in general. It specifically notes, "*it is important to recognise that the company is not an extension of the personal property of the owner*" (p.6). This is a thought-provoking statement in the context of the literature to be discussed in Chapter 3 concerning the competitive advantages arising to family companies because of the intimate involvement of the family. The Code, however, fails to elaborate further.

Although there appeared to be consensus across certain practitioner and professional groups regarding the alignment of listed and private company regulatory provisions the consensus was not necessarily shared across the academic community.

Lane, Astrachan et al. (2006), for example, have challenged the applicability of a 'market model', based on the separation of ownership and management control, to the family company sector and have offered alternative approaches to develop a form of accountability more in keeping with the needs of a family company. The basis of their argument is the alternative alignment of family company ownership and management structures where ownership and management are fused. They posit an alternative 'control' model of governance more common in Asia, Latin America and continental Europe. The alternative model challenges, for example, the need for independent non-executive directors and the nature and purpose of the board because of the nature of familial relationships within the company. However, in keeping with the IoD/ecoDa (2010) Principles, Lane, Astrachan et al (2006) do accept the applicability of the market model where family ownership becomes dispersed across generations and family involvement moves from a management to investor role. This argument is of importance to this inquiry. The control model can only hold if the family retains power and influence over company decision making. The question arises whether such power and influence can be maintained where shareholding is diffused across the family, there is no dominant shareholder or family grouping, the diffusion has led to the weakening of family bonds and the family is not significantly involved in management or formal governance. The logic of Lane, Astrachan et al's (2006) argument is that the market model would be applied where ownership and management is separated, and this is regarded as being the likely position in complex cousin consortium family companies.

The applicability or otherwise of the listed corporate governance provisions has, however, now been clarified. In 2018, a set of guidelines emerged from a government consultation, which has led to a series of statutory reporting duties and a statement of governance principles. The Government introduced secondary legislation in June 2018. The regulations require all companies meeting certain size criteria that are not currently required to provide a corporate governance statement to disclose their corporate governance arrangements publically in the annual directors' report. This is applicable to both family and non-family private companies.

Regulations state that the directors' report must include a statement identifying the particular corporate governance code the company has applied in the financial year and must indicate

how it has been applied. Companies must disclose any departure, and the reasons for such departures. Where no corporate governance code has been applied, the statement must explain the reasons for that decision and explain what arrangements for corporate governance were applied for that year. The reporting requirement applies to all companies that satisfy either or both of the following conditions: if they have more than 2,000 employees; and/or if they have a turnover of more than £200 million, and a balance sheet of more than £2 billion. These provisions take effect from January 2019.

The applicable governance code for unlisted private companies, including family companies, is the Wates Corporate Governance Principles for Large Private Companies (2018). A group established by the UK Government in January 2018 chaired by James Wates developed the Principles. They were first issued in the form of a consultation document by the Financial Reporting Council in June 2018 and then by the Financial Reporting Council in their final form in December 2018. The June consultation document notes *"Companies will not find in them a prescriptive list of actions they must take or boxes they must tick. These Principles are about fundamental aspects of business leadership and performance, which every company must interpret and apply for itself"* (p.1). These words would appear to reject explicitly the prescriptive approach taken in the Institute of IOD/ecoDa Code (2010) but this researcher questions whether the underlying assumptions regarding the nature of contractual governance are radically different.

The Wates Principles are as follows:

> **Principle one: Purpose**
> An effective board promotes the purpose of a company and ensures that its values, strategy and culture align with that purpose.
>
> **Principle two: Composition**
> Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.
>
> **Principle three: Responsibilities**
> A board and individual directors should have a clear understanding of its accountability

and responsibility. The board's policies and procedures should support effective decision-making and independent challenge.

Principle four: Opportunity and risk
A board should promote the long-term success of the company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.

Principle five: Remuneration
A board should promote executive remuneration structures aligned to the sustainable long-term success of a company, taking into account pay and conditions elsewhere in the company.

Principle six: Stakeholders
Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and have regard to their views when making decision.

The similarity between the headings of the Wates Principles (2018) and those of the Corporate Governance Code (2018) is self-evident. The researcher would further argue that the structures recommended by the Wates Principles differ little from established thinking as reflected in the Corporate Governance Code (2018) and the IoD/ecoDa (2010) Code. In particular, at an undefined point in time of a company's lifecycle, the Wates Principles recommend the separation of Chair/CEO, the creation of an effective board with both executive and independent non-executive representation and the creation of sub-committees dealing with matters such as remuneration and risk. The focus of attention remains the board along with its composition, accountability and responsibilities but companies have greater authority to determine the exact structures created.

2.3 Board Statutory Responsibilities

The regulatory framework confirms the Board as the main contractual governance mechanism. The IoD/ecoDa Code notes: "*Family institutions can play a useful role in coordinating and unifying the interests of extended families. However, the most important step for ensuring the*

long-term survival of a family company is the establishment of a strong board with independent non-executive board members" (p.35).

Directors are subject to both regulatory and statutory duties, with the latter taking precedence. Nothing in the Corporate Governance Code (2018) or the Wates Principles (2018) overrides or is intended as an interpretation of directors' duties as set out in the Companies Act 2006. These include, in section 172, the duty of a director to promote the success of the company for the benefit of its members as a whole. This duty applies to all directors, regardless of whether the company is public or private, a family or non-family company, a parent or a subsidiary or large or small. In full, it states:

> ***172. Duty to promote the success of the company***
>
> *(1) A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:*
>
> *(a) the likely consequences of any decision in the long-term;*
>
> *(b) the interests of the company's employees;*
>
> *(c) the need to foster the company's business relationships with suppliers, customers and others;*
>
> *(d) the impact of the company's operations on the community and the environment;*
>
> *(e) the desirability of the company maintaining a reputation for high standards of business conduct; and*
>
> *(f) the need to act fairly as between members of the company.*

The UK's legal framework provides no difference in the legal duties of executive and non-executive directors. It is implied, therefore, that the presence of non-executive directors, and in particular independent non-executive directors, as promoted in the regulatory codes, will improve the performance of the board beyond mere compliance with legal obligations.

Three points relevant to this study are drawn from the discussion of the current statutory and regulatory provisions:

a) First, private companies have previously responded voluntarily to developments in the public company sphere in relation to the role and composition of the board by creating and developing their own boards;
b) Secondly, family companies meeting specific criteria, however, are now subject to legal governance reporting requirements. In effect, they must report on their response to the guidance provided by the Wates Principles (2018) in relation to the creation of an effective board, and its composition and role. The Principles reflect expectations that complex companies will respond to imperatives regarding the separation of Chair/CEO, the appointment of independent non-executive directors and the use of sub-committees for particular areas of decision-making. The form and nature of contractual governance mechanisms for specific companies is now prescribed by the regulations;
c) Third, no specific consideration is given to family company governance. In particular, policy makers have not considered relational governance mechanisms and in doing so have confirmed the belief that such mechanisms play no role in the governance of the company. As noted above, reference was made in the IoD/ecoDa code (2010) to relational governance mechanisms but these mechanisms were not discussed in the Wates Principles (2018). Families, therefore, have complete freedom to create relational governance mechanisms as these are not considered to impact upon company governance. A consequence of this stance, however, is the ability of the family to determine the disposition of power and influence between contractual and relational mechanisms, and in doing so, compromise the policy makers' intended scope and power of the board. The detailed examination provided through the analysis of the three case studies in this inquiry will demonstrate how relational governance mechanisms plays a more direct role in the governance of the company. Through various means, the mechanisms themselves become a source of power and influence enabling the family to limit the scope of the board's decision making and retain power over specific issues.
d) Specifically, because of both the Corporate Governance Code (2018) and the Wates Principles (2018) the board has the major role in relation to strategy, appointments and rewards, subject to the ratification by the shareholders. In ignoring the relational interface, as expressed through relational governance mechanisms, the Principles fail to contemplate the potential for the family to use relational mechanisms to retain power and influence outside of the board over strategy, appointments and rewards.

This thesis will show that a more porous boundary exists between contractual and relational governance mechanisms in family companies than that contemplated by policy makers. As a result, despite shareholder diffusion and the engagement of few family members the family may still exercise power and influence over a company even though an analysis based solely on the number of family shareholders involved in management and the board would suggest otherwise. In the context of Lane, Astrachan et al (2006), for example, the control model of governance would remain applicable even though their more limited analysis based on involvement would suggest a move to a market model. Any assumption that the market model was applicable would be incorrect, as the family retains power and influence over the company.

2.4 The Board and the External Environment

This chapter has referred to the voluntary development of board structures even in companies not subject to governance regulation. An aspect of such development is the conditional and contextual nature of the board over time, based on the needs of the company. The need for board structures to evolve and develop may be explained by the resource dependency theory perspective. In particular, one aspect of the resource dependency theory addresses the relationship between the board and the external environment. Pfeffer (1972) has argued that:

a) board composition is a rational organisational response to the external environmental conditions; and
b) that companies use the board as vehicles for developing continued support from external organisations through the co-option of key individuals to the board.

A company has choices in relation to the linking strategies it will make with its environment to reduce uncertainty, the major being contracting, coalescing or co-optation (Dallas 1996). In this context, contracting takes place at the transactional level, coalescing refers to corporate merger, and co-optation refers to the appointment of appropriate individuals to the corporate board. Using the term, the 'Relational Board', Dallas (1996) has noted, "*By using board membership, the corporation acquires resources that enable it to decrease the uncertainty of its environment, thus increasing its chances of survival. These resources include advice, coordination with its external environment, information*

access and exchange, support through identification with the corporation, status and legitimacy within relevant communities, and monitoring and control" (p.3).

The basic proposition for resource dependency is that environmental linkage is a function of the types and levels of dependence facing the organisation and board members provide specific ties to that environment. Boyd (1996) provided empirical evidence of the response of the board to the external environment and noted in particular that high performing firms were more responsive to levels of uncertainty. Board composition is therefore a means of mitigating environmental uncertainty. Hillman's (2005) examination of the impact of politicians on the boards of companies in different regulatory environments illustrates the contingent nature of the firm's response to the environmental uncertainty. Her findings revealed not only a greater number of politicians on the boards of more heavily regulated companies but also found evidence of the link between the creation of external relationships with the reduction in uncertainty and better performance.

The desire to mitigate environmental uncertainty through the creation of a relational board explains possible incentives for the initial creation of a board by an owner, and, secondly its developing role and composition through, for example, the engagement of outsiders. The governance regulations place emphasis on the control and monitoring role of independent non-executive directors but this perspective brings into focus the other roles directors may perform.

2.5 Conclusion

This chapter has set out the regulatory governance framework applicable to private companies, including private family companies, meeting specific employee/turnover/balance sheet criteria. In governance terms, the regulatory framework reflects the concerns of listed company codes with its focus on the board. This is the major contractual governance mechanism and it is the main regulatory response to the issues arising from the separation of ownership and management. The regulatory structure legitimises the authority and power of board members to control and monitor the actions of management. Particular emphasis is placed on the role of independent non-executive board members.

Despite the significance of family companies to the economy and the claimed uniqueness of such organisations the Wates Principles (2018) pay no regard to the specific governance needs arising out of their, often complex, ownership structures. In particular, no attention is paid to

the role relational governance mechanisms may play, and such mechanisms are seen only to be relevant to the governance of the family. This is too narrow a view.

This thesis will demonstrate how in the case study companies analysed there is a more nuanced relationship between contractual and relational mechanisms than that contemplated in the regulatory structure. Importantly, relational mechanisms may be a source of power and influence for the family in specific areas of decision making and the power of the board may be restricted. In reserving power and influence, the family may retain control over the company even though an analysis based on family participation in management and the board would suggest it had lost such control. From a regulatory perspective, this implies that any analysis putting the board at the centre of decision making will be incorrect. From a theoretical perspective, any analysis based solely on the composition of management and the board will fail to capture the family's continued exercise of power through other means. Theories based on conceptions of control, and in particular the agency analysis, the familiness literature and the socioemotional wealth model, will need to consider the impact of relational governance mechanisms as alternative sources of power and influence to management and the board. These issues will be addressed in chapter 3.

Chapter 3: Literature Review

3.1 Introduction

This chapter discusses literature relevant to the examination of relational and contractual governance mechanisms in the context of family power and influence in multi-generation family owned companies. The research questions are focussed on how family shareholders in companies whose shares have passed between a number of generations exercise power and influence over company decision making. Such companies are of interest because of the unique issues the family may have faced as a consequence of inter-generational share transmission. The inquiry specifically seeks to understand how contractual and relational governance mechanisms adopted by family shareholders provide the family with access to power and influence over company decision making. The question of the family's power and influence over the company is important because the separation of family ownership and control is critical to a number of theoretical perspectives. This includes the agency analysis, the socioemotional wealth model, familiness and the family company competitive advantage literature (Lane, Astrachan et al 2006; Fama and Jensen 1983; Schulze, Lubatkin et al 2001; Lubatkin, Schulze et al 2005; Johannisson and Huse 2000; Tagiuri and Davis 1996; Carney 2005). The chapter will review relevant family company literature and identify gaps in that literature in relation to family company governance, and in particular, the role of relational governance. The chapter will also provide the basis for the analytical approach set out in chapter 4 and the detailed analysis presented in chapter 6.

3.2 Family and Company Relationships in Multi-generation Companies.

This inquiry examines the issues around family power and influence arising from the separation of ownership and control (Berle and Means 1935) as shareholding passes from one generation of family business owners to the next.

Four characteristics challenge the notion that family shareholders in long-lived family owned companies continue to exercise power and influence over decision management and decision control in the company (Fama and Jensen 1983).

The first relates to shareholder diffusion and is concerned with the number of family members with interests in the company and the size of their shareholdings. This may be limited but it

might also be extensive. The table below shows the consequence of one, two or three siblings per generation after the 1st and the impact on individual shareholding.

Generation	1 sibling per generation	% shares held	2 siblings per generation	% shares held	3 siblings per generation	% shares held
1st	1	100%	1	100%	1	100%
2nd	1	100%	2	50%	3	33.3%
3rd	1	100%	4	25%	9	11.1%
4th	1	100%	8	12.5%	27	3.7%
5th	1	100%	16	6.25%	81	1.23%
6th	1	100%	32	3.125%	243	0.41%
7th	1	100%	64	1.56%	729	0.13%

Table 1: Number of family members at each generation

This is a simple model and the actual disposition of each company's shareholding will differ, but it reflects the potential number of shareholders as a result of transgenerational succession.

Arising from this is a second characteristic, which is the potential for no one family member to possess a dominant shareholding. In the case of three siblings per generation, this stage is reached relatively quickly, with each shareholder having only 11.1% of the shares at the third generation stage. The table demonstrates, therefore, how both shareholding and power derived from ownership can be quickly diffused through transgenerational succession across a family group.

The third characteristic relates to the nature of family relationships. Given the numbers involved it cannot be assumed that all family members will know one another, physical co-location cannot be presumed, and shareholders may have a stronger family identity with other families to whom they are connected through marriage or lineal descent. The interests and dispositions of family shareholders could reflect the heterogeneous nature of family companies and the family as a single entity may be an illusion. The family could be, in effect, a family of strangers. Portraying the shareholder group as a single entity simply because of the common blood heritage may be incorrect.

There are a number of aspects to this. The family company as an entity may have different meanings to different family members. For some, the company may be a source of employment and a point of identity. For others, however, the psychological distance may be greater, and the shareholding may represent a residual connection to a family no longer part of the lived experience of that shareholder. Any underlying assumption that blood

relationships equate to emotional ties and family obligations may not hold and the interests and objectives of individual shareholders may differ significantly. This may affect attitudes to dynastic succession and the wish to exclude external capital.

Further, even the concept of family itself might be challenged. Tagiuri and Davis (1996) highlight how founder/sibling relationships distinguish family controlled businesses from other businesses, the inter-play of family and the business creating a unique setting within which business decision are made and ownership and control is exercised. Tagiuri and Davis' analysis, however, does not address the very different relationships that may be found in multi-generation companies. Chapter 1 has questioned what the position is if the relationship is not that of founder and sibling. In particular, what is the position if relatives have never lived with one another, if they do not work in the business, if they never meet socially and have no connection other than through a related blood history?

The final characteristic refers to the involvement of non-family individuals in the management and governance of the company. Diffused shareholding may lead to there being neither the capacity, capability or interest in family members to involve themselves in the management and governance of the company. Alternatively, conflict within the family may prevent the family agreeing who should participate in management and non-family individuals are brought in. In such circumstances, agency issues arising from the separation of control operate at two levels. First, there is the de facto separation of the family from day to day management, which is the usual focus of the agency analysis. A second potential vertical agency issues arises to family companies, however, which is the separation of the family from control of the board.

The loss of family power and influence in multi-generation family owned companies is posited in the family business life cycle literature. This literature anticipates a lineal development of the family owned company through three stages as a result of transgenerational transmission (Gersick, Davis et al 1997, Lane, Astrachan et al 2006, Westhead and Howorth 2006, Le-Breton Miller and Miller 2013). Common to these descriptions is the assumption of the weakening or loss of family control at the cousin consortium stage. The work of Lane, Astrachan et al (2006) reflects this position. Drawing heavily on Berle and Means' (1932) analysis of the de facto relationship between ownership and control, Lane, Astrachan et al's (2006) model reflects four governance states. Where the family group exercises control rights and ownership, a control model is proposed. Here the family is physically present, as both manager and shareholder, and control and ownership are fused. The second model, a market model, which reflects the

structures and concerns of the UK regulatory models, comes about because over time the number of active family members may decrease and shareholding may become diffused. In such circumstances accountability changes as ownership and management separate and the need for a board with monitoring control functions increase. Two others states are noted. One is where, over generations, the family becomes wholly passive, management is in the hands of non-family members, and the family are investors only. This is described as the portfolio model. The concern with this model is the wish of family members to exit and the potential loss of 'patient capital'. The final model, the dynastic model, reflects a position whereby a core part of the family remains involved in management, but multiple branches of the family develop as shareholders. Governance in this model is concerned with family unity and management of the horizontal agency issues arising.

This literature is influential and its impact will be reflected in the discussion below. What is not clear from this literature is why diffusion should necessarily be associated with the loss of family power and influence. This will be explored further in this literature review. In particular, the review will challenge an accepted notion of the means by which family power is retained in family owned companies which is critical to the life cycle, socioemotional wealth and familiness literature. This notion is based on the physical dominance of the family of management and or the board and will be critically examined in the context of multi-generational family owned companies. This thesis argues that this accepted conception of family power and influence is a partial explanation of family power as it fails to take into account the impact of relational governance mechanisms in relation to company decision making.

This literature review is structured in three parts. First, the review examines governance literature in the context of family owned companies. The review will begin with a review of relational governance and will then discuss contractual governance. Building on the discussion in chapter 2, and given its centrality in defining family power and influence, the review will pay particular attention to board role. This will include a detailed discussion of agency theory, which remains the dominant theoretical perspective in the governance literature.

The second part of the review will examine power literature in the context of family shareholders and family owned companies. This will focus, in particular, on the power and influence of family shareholders in relation to decision making. The review will bring together the power, governance and applicable familiness literature and will present the current

conception of family power and influence in multi-generation family companies represented in the familiness literature. This conception will be challenged as it fails to take into account the role of relational governance in relation to company decision making.

Finally, the review will address the strategic decision making options open to family shareholders, the benefits of family control, family conflict and the centrality of family decision making to the applicability of the socioemotional wealth model to family companies. The conception of family power and influence presented in the socioemotional wealth literature will be critically examined. This thesis will argue that power and influence has been too narrowly conceptualised and additional sources of power and influence exist.

3.3 Part A: Governance and Family Companies

A review of family company governance by Siebels and zu Knyphausen-Aufseß (2012) concluded that no single theory provides an over-arching, comprehensive explanation of governance practice in family companies. They noted, however, the influence of the agency, stewardship and resource dependency perspectives. In a later review of more than 350 articles in the family governance domain, Pinaldo and Requejo (2015) analysed the contextual and conditional nature of family company governance. This later review examined the relationship between governance structures and the impact of family control on business conduct and performance. Their study paid particular attention to 'internal governance mechanisms' and, in particular, the board. Confirming the conclusions of Siebels and zu Knyphausen-Aufseß (2012), they noted that the board played an important role not only in monitoring the company but also as an advisor and a provider of resources. No conclusions were drawn regarding governance structures, however, with the authors noting that: "*companies need to find their own combination of corporate governance devices to reassure stakeholders and guarantee the survival of the company over a longer period of time*" (p.293).

The two reviews reinforce the point that there is no single theory of governance and suggest that governance structures over time will evolve and adapt to the needs of the company. It is notable that these studies concentrate on those governance mechanisms existing in the company, and in particular the board. Relational governance mechanisms are not examined. This may be because of a limitation highlighted by Pindado and Requejo (2015), who note the difficulty accessing private company data that has led to a widespread reliance on secondary sources of data, commercial databases and a focus on public family companies.

3.3.1 Relational Governance

One consequence of the difficulty accessing private company data is the lack of a theoretical framework explaining the adoption or otherwise of relational governance mechanisms. Theory building has mainly focused on contractual governance mechanisms, and in particular the board. Relational governance is expressed through intra-family social interaction and is reflected through a variety of family governance mechanisms. They are private, voluntary, un-regulated and particular to each company and may or may not be adopted depending on the preferences of the family.

Current literature argues that relational governance mechanisms reflect structures and processes designed to foster good intra-family relationships to support the cohesion of the family in its family decision-making processes. Such mechanisms exist outside the company and seek to manage the family's relationship with the company (Mustakallio et al. 2002). In a review of family governance literature, Suess (2014) stated that research has identified seven types of family governance mechanisms: family councils, family meetings, family constitutions, a family office, a family retreat, selection and accountability criteria, and a formal family communication plan. Given the definition of relational governance mechanisms adopted in this thesis, the overlap between relational governance mechanisms and family governance mechanisms as defined by Suess can be seen. All of the seven family governance mechanisms identified by Suess could also be categorised as relational governance mechanisms. This researcher would argue, however, that Suess' definition fails to reflect the power and influence retained by individuals or groups within the family shareholder group outside of the formal contractual governance structures which remains a significant, informal, relational governance mechanism.

Suess' work noted the heterogeneity of governance structures in family companies and the lack of research into the triggers for the adoption of specific family governance mechanisms. Growing family shareholder complexity was generally accepted, however, as the antecedent for the adoption of relational governance mechanisms.

Although no theoretical framework exists in relation to the adoption of relational governance, Suess (2014) proposed a tentative model of the impact and role of family governance underpinned by eight propositions. The model is a synthesis of the conclusions drawn from the review exercise.

Suess' propositions are as follows:

a) Family and business complexity increases the likelihood of family governance mechanisms being developed and the formality of such arrangements will correspond to the complexity;
b) Family governance mechanisms are positively associated with economic performance although this is mediated by the family's salary/dividend policies ;
c) Family governance mechanisms are positively associated with open communication, trust, social interaction and goal alignment;
d) Family governance mechanisms are positively associated with family unity, conflict mitigation and conflict resolution among family members;
e) Family governance mechanisms are associated with business professionalism;
f) Family governance mechanisms and in particular family councils contribute to the success of succession planning;
g) Family governance mechanisms increase commitment from non-family managers through the creation of favourable work environments; and
h) Family governance mechanisms are positively associated with familiness.

The focus of these propositions is intra-family relations, the management of the family, and the management of family/company relationships. The need to manage the family is attributed to the complexity of family structures and the wish to define the meaning and nature of 'family' in the context of such complexity. The references to conflict resolution, goal alignment, trust, open communication, succession planning and familiness reinforce this view. No role is proposed in relation to decision making in the company.

Suess makes a link between 'professionalism' and the adoption of family governance mechanisms. Professionalism is linked to matters such as greater planning, protocols for the employment of family members and the employment of external managers. Suess posits the possibility that either the creation of family governance mechanisms leads to greater expressions of professionalism or, alternatively, that the engagement of more external managers leads to the creation of family governance mechanisms. Suess notes that the driver for this latter assumption would be to remove from the business non-business but family-related issues which might affect the business. This emphasises the idea of the separation of the family from the company, the suggestion being that family governance measures, and thus relational governance mechanisms, may provide an alternative forum within which family

issues may be discussed to protect the company from those issues, and by extension, from the family itself.

Based on Suess' propositions, therefore, a major purpose for and role of the adoption of relational mechanisms is to remove family issues from the company in response to family shareholder complexity and the engagement of non-family managers. If the purpose of relational governance is to separate the family from the company, however, what then is the continuing influence of family over the company?

In the context of the socioemotional wealth literature to be discussed below, this suggests a removal of matters relevant to the well-being of the family from company decision making, and limits, therefore, the potential for the family to enjoy family centred non-economic benefits that are at the heart of the socioemotional wealth concept. The agency and stewardship literature to be discussed below notes the potential for family altruism, but that potential will be eliminated by removing family influence over company decision-making. Further, the analysis of the characteristics explaining the reasons why family companies enjoy competitive advantage is founded on the family's continued involvement in company decision making (Carney 2005). Purposefully adopting relational governance mechanisms to take the family out of the company would appear to threaten the very basis of the family owned company's competitive advantage.

Suess' work is not concerned with family shareholder power and influence but if the family does not exercise such power and influence what is left of 'familiness'. A major contribution this thesis will make will be to demonstrate how relational governance mechanisms enables the family to continue to exercise power and influence within the company and address the issues noted in the previous paragraphs. A more compelling role for relational governance is set out.

Rather than separating the family from the company, the analysis will show how the interplay of contractual governance mechanisms with formal and informal relational mechanisms enables the family to retain power and influence over company decision making. In doing so, the beneficial attributes and characteristics attached to family ownership continue to be applicable and the notion of family remains more than a branding statement or a tokenistic or sentimental reference to a past time.

3.3.2 Contractual Governance

As noted in chapter 2, private company regulatory governance provisions focus on the board and take no account of relational governance mechanisms. Private company provisions mirror public limited company provisions. The board has been subject to considerable academic enquiry and theories of board role encapsulate the main theories underpinning governance itself. The literature presents a multi-theoretic perspective. Hung's (1998) typology of the board role theories posits the following analysis:

Role	Theory
Control Role – conformance function	Agency Theory
Linking Role – networking/interlocking directorates	Resource Dependency Theory
Coordinating Role – pluralistic organisation	Stakeholder Theory
Strategic Role – performance function	Stewardship Theory
Maintenance Role – identifying with societal expectation of organisation	Institutional Theory
Support Role – instrumental view of directors	Managerial Hegemony

Table 2: A typology of board role theories, derived from Hung (1998)

It is not the purpose of this literature review to discuss all the theories noted but Hung's analysis is useful for a number of reasons:

a) it identifies the differing conceptions of the scope of the board's role. The board is regarded as the ultimate source of authority and exercises power over both decision management and decision control issues. No other body in an organisational context is charged with the legal obligations and responsibilities of the board;
b) it illustrates the contextual nature of the role of the board. Various dimensions of board role may have greater significance at different times in the life cycle of the company. For the purposes of this inquiry, the major issue concerns the separation of family ownership and control and this brings to the fore the agency role of the board and the power it has to monitor and control on behalf of family shareholders; and
c) aspects of the theoretical insights reflect different bases of power exercised through the board.

In the context of this inquiry, point a) is of relevance because it locates the board as the only source of power in governance terms. This view of board power reflects the governance

regulatory provisions but this view of the role of the board will be challenged in this thesis. The analysis will demonstrate how family shareholders may limit board authority and exercise power and influence through other relational governance mechanisms not contemplated in the regulatory or governance literature.

Point b) highlights the importance of exploring the agency perspective in the context of the separation of ownership and control in a family company setting. This raises some unique issues in relation to family/company and intra-family relationships. Point c) highlights the need to explore other theoretical perspectives linked to board role, particularly stewardship and stakeholder theories, to identify other bases of power exercised through the board.

3.3.3 Agency Theory

This section of the review will first set out the significance of agency theory in relation to the board. It will then explore agency in the context of family companies, the purpose being to identify the unique agency issues arising in family owned businesses.

Agency theory is the dominant theory underpinning board role research, regulatory development and policy level discourse (Lane, Astrachan et al. 2006). Zajac and Westphal (2004) have written of the "*change in institutional logics towards an "agency logic" of governance, in which managers are assumed to prefer strategies that often conflict with shareholder interests"* (p.435). The discussion in chapter 2 demonstrated the influence the agency perspective has had on regulatory formulation in the private and public company sectors, the regulations stressing the control and monitoring function of the board in relation to management.

Empirical studies into board role similarly reflect the influence of agency theory. Bezemer, Maassen et al. (2007) provided evidence in listed Dutch companies of greater director involvement in the internal operations of the companies investigated at the expense of the external service task. Veljanovski, Brooks et al. (2009) noted the support provided for both an agency and stewardship perspective in their study of Australian quoted companies. In the SME sector, Clarysse, Knockaert et al. (2007) have argued that agency theory provides a partial explanation for the types of outside directors recruited to different types of high-tech start-up companies. This finding was supported by a study of Scottish SMEs by Deakins, Neill et al. (2000). In the context of US companies, Fiegener, Brown et al. (2000) have shown that the amount of ownership outside the firm is the strongest influence on the likelihood that a small

private firm would engage outside directors. Where such directors were engaged, the agency function was more dominant than other theorised roles.

Agency theory is posited on economic rationality. Corporate objectives are framed in the context of economic wealth maximisation through profit and share price growth. The theory highlights a perceived problem between a principal and an agent, which is the agent's predicted behaviour based on their risk attitudes and imputed economically rational, self-interested motives. A conflict of interest may arise based on the different economic interests of the agent/principal and economic resources may be diverted from the principal to the benefit of the agent. Market, regulatory, governance and cultural interventions are required to prevent this occurring. While legal contracts are regarded as the main mechanism to control agency problems they are imperfect and costs must be expended on additional control and management mechanisms (Jensen and Meckling 1976). The board is the major contractual governance mechanism. Power is at the centre of the debate: the power of agents to abuse their position and the power of principals to monitor and control the behaviours of agents to prevent this.

Attention is paid to the separation of de jure ownership and de facto control. In owner-managed companies, ownership and control may be fused. The separation of ownership and management through shareholder diffusion changes the power relationships (Berle and Means 1932).

Fama and Jensen (1983) analysed the separation of ownership and control in the context of decision making and divided the decision process into two components; decision management (initiation and implementation); and decision control (ratification and monitoring). The board can exercise power over both decision management and decision control depending upon the decision under review. In operational terms, however, decision management tends to rest with management while decision control is the function of the board.

The significance of this analysis of decision making lies in the body or individuals in whom decision control, at least, is vested. Regulatory thinking vests this in the board. In power terms, whoever controls the board has power over decision making and if it is not the family, then they are cut off from the main source of decision making power. In the opinion of the researcher, this is too simplistic an explanation of decision control in multi-generational family owned companies and a more nuanced explanation is required. The analysis in chapter 6 will

demonstrate specifically the need to take into account the unique relationships within multi-generation family owned companies and the role of relational governance mechanisms.

3.3.4 Agency Issues in Family Owned Companies

The applicability of agency theory to certain types of family owned companies is contested as it is argued that family companies can control agency problems in ways not open to other firms. This is founded on two propositions. First, the problem cannot arise if the residual claimants are also the decision makers (Fama and Jensen 1983). Broad family owner management, therefore, eliminates the agency problem (Jensen and Meckling 1976). Secondly, Fama and Jensen (1983) have argued that the special relations between family members – the 'dimensions of exchange' – enable agency problems to be controlled without the separation of management and control decisions. These points would seem to locate the discussion primarily in the context of first or second generation stage but may not be applicable to multi-generation family owned companies with diffused shareholding.

The agency analysis, therefore, may only be applicable to family companies with internal hierarchical decision structures and where ownership, control and monitoring are diffused. Westhead and Howorth (2007) for example, posit a greater emphasis on financial objectives as non-family owner-manager involvement increases, which implies a need for greater monitoring and control. The residual claimants may not be the decision makers and the dimensions of exchange may not operate because of the weakening of family bonds and shareholder diffusion.

An alternative view is that different or additional agency issues arise as a result of owner-management in family owned companies. It is argue the advantages of owner management are based on two assumptions which are open to challenge: that owner-management is an efficient substitute for agency control mechanisms; and that the separation of ownership and control is the source of agency costs (Schulze, Lubatkin et al. 2001).

Schulze, Lubatkin et al. (2001) argue, first, that the efficiency of the external markets (competition, corporate control, capital, labour) in reducing agency costs in public companies is compromised in private/family companies. Secondly, they argue agency costs will rise significantly if assumptions that conflicts of interests can be resolved through mechanisms such as voting rights and liquid markets or of shared objectives based on economically rational, self-interested utility maximisation, fail.

They further argue that specific factors may create additional agency costs that are entirely overlooked in Jensen and Meckling's model. Agency theory assumes that family firm motivations will always be economic but these authors and others have examined the impact of altruism in an agency context (Schulze, Lubatkin et al. 2003, Lubatkin, Schulze et al. 2005, Lubatkin, Schulze et al. 2005, Karra, Tracey et al. 2006, Lubatkin, Durand et al. 2007). Non-economic considerations may influence the behaviours of those with the power to benefit others, which may maximise the utility gained by individual actors but which may damage shareholder wealth. The performance and long-term wealth of a firm may be damaged if altruism is not appropriately controlled by owner-managers, and in particular by parent owners. The Jensen and Meckling model does not refer to the costs of limiting the impact of altruistic behaviours.

Lubatkin, Schulze et al. (2005) refer to three types of agency issues in owner managed firms: moral hazard; hold up; and adverse selection. Moral hazard relates to free-riding and shirking. Hold up is the potential for principals to force changes on agents that are not in their best interests, and adverse selection refers to the recruitment or promotion of unqualified individuals. All refer to aspects of family relationships within a family company. The principal focus is in relation to parents and children and the altruistic attitude of parents towards their children. The authors recognise the role of altruism in fostering loyalty and commitment, which is potentially beneficial to the long-term interests of the firm. However, there is a 'dark side' to altruism, which, if not regulated through self-control, can lead to undesirable outcomes such as free-riding, shirking and the provision of unearned or above market rewards. Such outcomes may damage the welfare of the company in the end and exclude beneficial contributions by non-family members.

Beyond the parent/sibling relationships Lubatkin, Schulze et al (2005) argue that such problems continue to exist in sibling partnerships and cousin consortiums. In the former, the need for long-term co-operation may be recognised but decision making may reflect the immediate needs of the wider family. There may also be a mix of values and interests across siblings, spouses and children. In these circumstances, the agency problem is seen to be a horizontal issue across siblings. The authors argue that second and third generation companies are the product of selection bias – that is that they consist mostly of those firms that have institutionalised self-restraint and developed effective governance practices. This would suggest the elimination of altruistic behaviour in later generation cousin consortium companies.

Lubatkin, Schulze et al (2005) argue that additional control mechanisms are required to those found in non-family firms. In effect, the board is not capable of addressing these specific agency issues and there is a role for relational mechanisms such as family councils, formal family monitoring systems, a family constitution or protocols regarding the employment of family members and the role of non-family members. This argument extends the control role beyond the board to relational governance mechanisms, to the extent that such mechanisms enable the company to exercise self-restraint. Consistent with Suess' propositions, the role of relational governance is primarily to manage intra-family relationships but, in this discussion, there is an additional vertical agency role in the company aimed at limiting the scope of altruistic behaviours as well as a horizontal agency role within the family dealing with intra-family discrimination.

The potential of altruism to promote company wellbeing is complex and the work on altruism has highlighted the potential positive as well as adverse impact it may have on company wellbeing. Its role in the preservation and maintenance of good family relationships, for example, is reflected in the stewardship and conflict literature (Eddleston and Kellermanns 2007, Kellermanns and Eddleston 2007) and is implicit in Fama and Jensen's (1983) notion of the dimensions of exchange in family companies.

Furthermore, Villalonga et al. (2015) have categorised four agency problems in family firms, these being the relationships between:

a) owners and managers;
b) controlling shareholders and minority shareholders;
c) shareholders and creditors; and
d) family shareholders and family outsiders.

Point a) has been discussed in detail above and this has noted the potential for agency issue to be mitigated by the concentration of ownership and management as well as the impact of altruism (Jensen and Meckling 1976, Fama and Jensen 1983, Schultze, Lubatkin et al. 2001, Schulze, Lubatkin et al. 2003, Lubatkin, Schulze et al. 2005). At the fifth or more generation stage the diffusion of both ownership and management across family and non-family actors in some firms gives rise to this classic agency problem (Westhead and Howorth 2007).

Points b) and d) identify an agency issue existing horizontally across owners. The former reflects the potential of any controlling interest to extract benefits to the detriment of the

minority shareholders, both family and non-family. Control can be exercised through both management and ownership. The latter refers to the family as a 'super-principal' in the company structure representing the interests of family members who may not necessarily be current shareholders. Villalonga et al (2015) did not regard c) as a significant issue where the company strategy is to secure long-term company value rather than shareholder value, but again in more mature family companies with diffused ownership this could be an issue. Villalonga et al (2015) conclude that the unique agency issue which might exist, in addition to the much-debated agency issues in non-family firms, is the requirement of the individual or group with a controlling family interest to exercise self-restraint in order to avoid disadvantaging the minority family or non-family shareholders.

The above discussion has highlighted the potential agency issues arising in relation to family companies. In the context of multi-generation private family owned companies, there are a number of areas of interest. The first relates to the vertical agency issues arising as a result of the potential involvement of non-family members in the management of the company and the potential for altruism to affect family managers' decision making. A second refers to the horizontal agency issues that arise intra family, and reflect the differential power relationships persisting within the family. There is potential for one branch of the family to use its controlling position to advantage itself at the expense of other family shareholders. From a governance regulatory perspective, these issues necessarily fall within the scope of the board, which has been identified as the major contractual governance mechanism and the best arena within which to address agency issues.

This inquiry questions this position. First, this assumes family shareholders control the board. A question arises about the actual disposition of power if the family does not physically dominate the board. Families might have considerable power and influence over the company through their long-term relationship, power of personality or because it is their 'name over the door'. The second relates to the actual mechanisms boards might use to address horizontal issues arising within the family. It is not clear what mechanisms are available and in reality boards might have very little influence over agency issues intra family. This would indicate a role for relational governance mechanisms relating to matters that affect both the company and the family. This again challenges the notion that relational governance mechanisms are only concerned with the management of the family (Suess 2014) and highlights the potential for relational mechanisms to play a role in the governance of the company itself.

3.3.5 Stewardship Theory

Hung's typology of board role theories include stewardship theory, which has received considerable attention in the family business literature. Stewardship theory poses a challenge to the agency perspective as the agency theory conceptualisation of the manager is considered to be too narrow. Donaldson (1990) has described agency theory's portrayal of the manager as follows:

> *…the manager as an individual who has the inherent propensity to shirk, to be opportunistic, to maximise his or her self-interest, to act with guile, and to behave in ways that constitute moral hazard….(*p.372)

Davis, Schoorman et al. (1997) have argued that the agency model may explain relationships where the parties' interests are at odds and mechanisms, such as governance structures, are required to control conflict. However, this perspective is not considered exhaustive. In a stewardship setting, the model of man is that of a steward, whose conception of rational behaviour embraces collectivist, cooperative, organisationally centred behaviour where there is a shared perception of interests. The psychological factors of motivation, identification and power provide a means of differentiating the stewardship perspective from agency.

Additionally, a contrast is made between the control-orientated approach posited by agency theory and an involvement-orientated approach consistent with stewardship theory. The role and perceptions of the board are different. Managers and owners may not be selfish but may work collectively for the good of the business.

In the context of family companies, Westhead and Howorth (2007) have argued that a stewardship perspective may be a more appropriate basis for the examination of company behaviour in the absence of external non-family capital because the motives of the major actors – owners, managers and employees – are aligned. This is supported by Miller, Le Breton-Miller et al. (2008). In family owned businesses the stewardship perspective is manifested by a devotion to the continuity of the company, the nurturing of a community of employees and the creation of closer connections with employees.

Taking a stewardship perspective, Eddleston and Kellermanns (2007) examined altruism and control concentrations in the context of relationship conflict and participative strategy. Their study found that relationship conflict is negatively related to performance and a participative

strategy process is positively related to the performance of the family firm. In this context, altruism was found to reduce relationship conflict and enhance a participative strategy. In a stewardship context, altruism is seen as a family attribute and is characterised in a positive capacity. Eddleston and Kellermanns argue that altruistic families possess collectivist orientations that encourage family members to exercise self-restraint and consider the effect of their actions on the firm. In doing so, loyalty, interdependence and commitment will be evident.

Davis, Schoorman et al. (1997) also highlighted trust as a key element in the management approach adopted by a firm. Trust, commitment and shared values in stewardship have been argued to be a source of competitive advantage. Steier's (2001) analysis of three cases studies has provided the basis for a series of propositions regarding trust and the family firm. This includes the notion that trust is a prominent feature in family firms in the early stage of their development. As a governance mechanism, therefore, it may substantially reduce transaction costs. The role of trust will evolve as a governance mechanism as the firm evolves but trust may diminish as firms grow and evolve. In the case of sibling partnerships and cousin consortiums, there may be a need to reinvent trust and invest in trust-building activities. A summary of the multilevel nature of trust and the relationship between trust and governance has been provided by Eddleston, Chrisman et al. (2010):

> *Starting with the founder, we appreciate how the experience of new venture creation may encourage the development of a trusting environment that supports stewardship principles. In turn, trust in a family firm leader is essential to the cultivation of stewardship principles, particularly among non-family employees. Conversely, a lack of trust or a need to safeguard trust in a family firm CEO appears to be associated with intra-family monitoring to avoid agency costs… importantly, when it comes to the interplay between trust and governance, familial trust alone is often not enough for a sustained competitive advantage* (p.1051).

This work would suggest a trade-off between trust and more formal governance systems, both contractual and relational but this may not be the case. Suess' (2014) propositions noted above, propose a role for family governance mechanisms in promoting trust, open communication, social interaction and goal alignment. Similarly, Hung's (1998) typology highlights the potential role of the board in promoting and coordinating participative strategy processes.

Power is again at the heart of stewardship theory, and in particular, the power of management and the board to promote a culture framed to address stewardship imperatives. The good that may arise, based in particular on intra-company relationships, can be beneficial and who has power becomes an issue. If stewardship imperatives are a particular feature of family companies and a source of competitive advantage, what is the position in multi-generation family owned companies when non-family individuals dominate management and the board? Is this theory only applicable to first and second generation family owned companies or those with no non-family involvement? This issue is addressed by this thesis.

3.3.6 Stakeholder Theory

Stakeholder theory is relevant to this discussion because of the attention it pays to power relationships. In particular, Huse (1998) has characterised board relationships with stakeholders as dependent upon the balance of power between the stakeholders and the managers and between the various stakeholders.

The external stakeholders identified by Huse extended beyond those with whom the companies had contractual relationships, such as bankers, employees, customers and suppliers, to the broader local community and government authorities. Huse did not refer to owners but these must be regarded as important stakeholders. Significantly, Huse noted that the role of the board changed in response to the particular needs of the company and identified the different roles under the titles of legitimising (recovery), advising (reorganising) and monitoring (re-financing). In Huse's opinion, board roles were determined by the power external stakeholders used to influence management in each of the companies.

This is directly relevant to a study concerned with the power and influence family shareholders exercise in multi-generation family owned companies. The relationship between the board and shareholders is significant. As with other perspectives, the question arises what the relationship is where the board does not have a majority of family members on it. Who does the board respond to in these circumstances? Can family shareholders continue to exercise significant power and influence where the family holds a minority of board positions? Huse provides insights into the potential for the family shareholder group to exert power and influence over the board, despite the family's lack of physical dominance. Such power and influence might arise from the ability of the family shareholder group to organise itself into a coherent, unified body, able to exert its influence on the basis of family consensus. A family that can organise itself in such a manner could also come together to dismiss the board.

Alternatively, family shareholders may use relational governance mechanisms to guide the board in its decision making. This thesis will examine detailed case studies to identify how family owners might influence, assume power over or collaborate with the board in specific areas of decision making through both formal and informal relational governance mechanisms.

Huse's (1998) reflections on board roles and stakeholder power are interesting in relation to two further board roles in Hung's typology. Specifically, the maintenance and support roles are linked to institutional theory and managerial hegemony. Both institutional theory and managerial hegemony reflect the potential impact of specific stakeholders. Institutional theory refers to the response of the board to external social pressure and accepted conventions to maintain the status quo in the organisation. Hung refers to the board *"indoctrinating the organisation by understanding and analysing the external environment"* (p.107). Alternatively, in the context of managerial hegemony, company managers are regarded as a significant and powerful stakeholder group capable of exerting pressure on a board and weakening the board's role. The concerns raised by institutional theory and managerial hegemony are of interest because they provide an explanation for some of the concerns that the regulatory governance reforms discussed in chapter 2 have addressed. To this extent, the supporting and maintenance roles of the board are defined, therefore, in the regulatory codes and principles previously discussed.

3.3.7 Conclusion

The discussion has demonstrated that current governance literature fails to explain fully how family shareholders may exercise power and influence in multi-generation family owned companies.

The potential difficulties arising in multi-generation family companies from the diffusion of shareholding through transgenerational succession have been stated. These issues may include an increasing number of shareholders, the weakening of family bonds over time, no single dominant shareholder, a lack of interest on the part of family members to get involved and the need to bring in non-family individuals to both manage and govern. All of these characteristics suggest a weakening of family shareholder power and influence.

The work of Siebels and zu Knyphausen-Aufseß (2012), Lane, Astrachan et al. (2006) and Pindado and Requejo (2015) have highlighted the conditional nature of the governance arrangements established by family companies in the context of a number of theoretical

perspectives, including agency and stewardship. These theories have been explored above to the extent they relate to the issue of power and influence.

The discussion has highlighted that the major contractual governance mechanism is the board. In a regulatory context discussed in chapter 2 and the theoretical context discussed above, the board is the key organisational body in relation to both company decision making and the monitoring and control of management. The board is positioned as the major source of power and influence over the company and therefore, in the context of this study, the vehicle through which family shareholders may exercise power and influence.

The discussion has also noted how relational governance mechanisms are denied a role in the company, such mechanisms being concerned only with the management of family relationships.

The discussion has noted the questions arising from this position. From an agency perspective, particular vertical and horizontal agency issues have been identified in multi-generation family companies connected with relationships between family and non-family managers intra-company and relationships intra-family. The discussion has questioned the ability of the board alone to address these issues. Rather, a more nuanced understanding of the role of relational governance mechanisms intra company as well as intra-family is necessary to understand how such agency issues might be addressed. This challenges Suess' (2014) conception of the role of relational governance mechanisms. It also challenges the notion that decision management and decision control may only be vested in the board.

A larger question arises if the family does not control the board through it's physical presence. If the board is the source of power and influence in terms of company decision making then a board controlled by non-family members implies a loss of power and influence by the family. This thesis argues that this is too simplistic a view and fails to contemplate the power exercised by the family in and around the company outside of the board. The thesis will demonstrate the need to comprehend more fully the power vested in formal and informal relational governance mechanisms.

3.4 Part B: Family power and influence

Having highlighted some of the problems and omissions of current theories that are used to understand governance in multi-generation family companies, it is appropriate to examine

what forms of power and influence arise through the adoption of specific governance mechanisms.

3.4.1 Power, Influence and Governance Mechanisms

In discussing power and influence, an initial issue is to address the use of those two words. In the power literature, two approaches are taken. The first approach is to use the words interchangeably (Dahl 1957, French and Raven 1959, Salancik and Pfeffer 1977). This reflects the way in which these words are used in common usage. In the *Chambers 20th Century Dictionary* (1977), for example, the definition of power includes the: "*right to command: authority: rule: influence: control: governing office: permission to act" (p.1051).* The same dictionary's definition of influence includes the terms: "*effect of power exerted: that which has such power: a person exercising such power" (p.672).* In the literature, Dahl (1957) has noted, "*There is a long and honourable history attached to such words as power, influence, control and authority… I should like to be permitted to use these terms interchangeably when it is convenient to do so*" (p.202). Similarly, in discussing an exercise carried out in an insurance company, Salancik and Pfeffer (1977) noted that "*only one person bothered to ask "what do you mean by influence?" and when told "power", he responded "Oh" and went on"* (p.4).

Dahl (1957) noted, however, that researchers have taken an alternative approach and sought to differentiate these terms. A distinction between power and influence has been argued by Bachrach and Baratz (1963). The authors note the difficulty in distinguishing between the two concepts but draw a line by arguing that although both display relational and rational attributes, power is different because its exercise depends upon potential sanctions. Such sanctions, for example, could be rooted in the employee/employer relationship and the formal powers held by shareholders in particular areas of appointment and ratification.

Influence is linked to authority. For Bachrach and Baratz, authority differs from power in that an individual's compliance with a body or individual vested with authority, such as the board, will be because the requirement to comply is reasonable in the context of that individual's values and can be rationalised. This explains how individuals or groups with defined functions may prevail over others in an organisation. Board membership, for example, gives an individual standing within an organisational hierarchy and specific attributes attach to that person. In the context of Bachrach and Baratz's definitions, it can be seen how the board exercises both power and influence over company decision-making. This study will use

Bachrach and Baratz's explanations of the terms power and authority to inform the discussion of family power and influence.

The nature of the power relationships under examination also need to be considered. There are two dimensions. The first concerns the dynamic relationship between the family and the company as ownership passes between generations and non-family members become involved in the management of the company. This is concerned, therefore, with the exercise of family 'voice' over such matters as senior management appointments, board appointments, strategic decision-making and rewards. Direct family power and influence is said to diminish as non-family members are brought into the company. The potential for the family to be no more than an external investor at the cousin consortium stage has been noted (Lane, Astrachan et al 2006). How, then, can contractual and relational governance mechanisms be used to enable the family to continue to exercise power and influence in relation to company decision-making at the multi-generation stage.

The second dimension concerns relationships intra- family and the impact of ownership diffusion. This literature review has noted the potential for there to be 729 related descendants at the seventh-generation stage in a very simple generational model. This illustrated the possibility of significant ownership diffusion within a relatively short period of time. The agency literature has highlighted the horizontal and vertical issues arising when generational diffusion occurs. There is also the potential for intra-family conflict where emotional and physical bonds are weak and there are asymmetrical shareholding profiles. As a result, intra-family power relationships and the relationship between the family and the company need to be understood.

3.4.2 Power

The fundamental basis of power and influence is said to be the relationship A has to B. In Dahl's (1957) view, power has four elements; a base; the means or instruments used to exert power; the amount or extent of the power; and the range or scope of the power. Such an analysis can hold, too, in respect of influence.

The power base has been subject to specific enquiry which provides insights into the potential bases of power within an organisation. French and Raven (1959) identified five bases of social power: reward, coercion, legitimate, referent and expert powers. Benfari, Wilkinson et al. (1986) have added to this list information, affiliation and group powers.

Power takes on a variety of forms. Fleming and Spicer (2014) have identified two forms of organisational power, which they have termed systemic and episodic. The systemic notion has two aspects; the first is that termed domination by the authors (Lukes 1974); the second is termed subjectification (Foucault 1977). In the former, power is acquired through the construction of a set of ideological values that create a shared constructed reality. This determines the preferences and wants expressed. In the latter, power 'crafts' identities in such a manner that actors manage themselves on behalf of the vested interests of others.

Episodic forms of organisational power are more applicable to this inquiry as these forms reflect the direct exercise of power with overt acts shaping the behaviours of others. Such forms of power are particularly applicable to the discussion of contractual and relational governance mechanisms as such mechanisms are primarily concerned with structures created in and around the company to enable the family to manage the family asset. In contractual governance terms, the governance structures include legal relationships created through the Articles of Association, shareholding mechanisms, the board, and its committees, whereas relational governance mechanisms contemplate a range of voluntary arrangements including family constitutions, family councils and assemblies. In the context of the exercise of power and influence, these governance mechanisms are essentially concerned with:

a) the provision of specific legal rights one individual can enforce against another;

b) the attainment of membership of certain boards/committees/councils/ and the processes by which such individuals come to be members of such bodies;

c) general legal rules which may apply to the roles and duties of particular boards/committees;

d) agreed written voluntary rules setting out the basis and nature of the engagement of the family in specific processes linked to the governance of the company;

e) the identification of issues over which such boards/committees/councils can exercise power and influence. Here it is necessary to distinguish between those matters subject to general legal provisions and those subject to voluntary agreement; and

f) accepted family traditions, conventions and practices which may determine family involvement and participation.

Episodic power takes two forms; coercive power; and manipulation. Coercive power is defined as the expectation on the part of B that they will be punished if they do not take the action A wants. This is the sanction element Bachrach and Baratz (1963) referred to that distinguishes power from influence. It is argued that this cannot exist in a vacuum but in organisational power terms can be understood in the context of the meaning of legitimate power. French and Raven's (1959) definition of legitimate power reflects elements of Bachrach and Baratz's (1963) definition of power and authority, the authors noting "*we think of legitimate power as a valence in a region which is induced by some internalized norm or value"* (p.264). They argue that legitimacy is linked to values, codes and standards, social and organisational structure, and thus to hierarchies. In organisational terms, role descriptors and terms of reference, for example, may define the nature, range and scope of the power and influence to be exercised by individuals and groups. In a family company context, it is possible to posit that legitimacy may attach to family members in a variety of ways. Being a family member in itself could be a starting point in some companies but in more sophisticated governance structures membership of the senior management team, senior roles such as CEO or board Chair, board membership and engagement with voluntary relational structures created by the family may be sources of personal legitimate authority within both the company and the family. As noted, governance provisions and family governance literature regard the board is the only body recognised as possessing legitimate power over all aspects of a company's decision making. No legitimate power attaches to relational governance mechanisms but this conception of the role of relational governance mechanisms is challenged in this thesis. Specifically, relational governance mechanisms are argued to be sources of episodic power.

The nature of institutional power has been examined by Salancik and Pfeffer (1977) and Pfeffer (1981). Taking a resource dependency view they propose a strategic contingency model of power in organisations. Salancik and Pfeffer (1977) note that *"power is used by subunits, indeed, by all who have it, to enhance their own survival through control of scarce resources, through the placement of allies in key positions, and through the definitions of organisational problems and policies"* (p.4). There are a number of aspects to the notion of strategic contingency. First, the reference to allies highlights the importance of the power to appoint senior management and board members.

The reference to the definition of organisational problems and policies also refers to the second form of episodic power categorised by Fleming and Spicer (2014), which they termed manipulation. This reflects a less direct form of power where control lies in the ability to limit

the issues that can be discussed. Bachrach and Baratz (1963) provide an example of this using the notion of non-decision making. They note that this situation exists where values, existing power relations, accepted rules and the "*instruments of force, singly or in combination, effectively prevent certain grievances from developing into fully fledged issues which call for decisions*" (p.641).

Certain matters, therefore, are not up for debate. In the context of the board, this is seen in the power of the Chair to control the agenda, and the importance attached to this is reflected in the requirement in governance code orthodoxy to separate the role of CEO and Chair. In a family owned company context, the role of Chair may be a significant role in the maintenance of power and influence as the Chair would have power over what may or may not be debated by senior management. Such power opens the possibility for specific decisions, which in a non-family company context would be made by the board, to be taken from the board entirely and placed with the family through relational governance mechanisms.

Salancik and Pfeffer's (1977) notion is of a dynamic analysis of power with organisations adapting to the uncertainties and issues as they arise. For family companies this posits the potential for management structures and governance mechanisms development to be strategically contingent on the environment the company operates in. Changes to these mechanisms will occur as, for example, family involvement changes through generational succession. The importance of structure is based on the notion that institutional power is located in the rules, procedures and information systems created in that structure that legitimise the authority of individuals or groups.

There is a second element that must be taken into account relating to behaviours (Pfeffer 1981; Brass and Burkhardt 1993; Pettigrew and McNulty 1995; 1998, McNulty et al. 2011). Pfeffer (1981) has noted that, *"within the structural constraints described in this chapter, there are clearly individual differences in ability, political skill, and in the willingness to use those skills and abilities in contests within the organisation. Individual resources and abilities can impact the power exercised by the occupant of a given structural position*" (p.131).

Brass and Burkhardt (1993) investigation into structure and behaviour illustrates the potential interplay and relationship between structural position and behavioural tactics needed to acquire and exercise organisational power and influence. Their findings emphasised the significance of structural position in legitimising authority, noting that:

a) position in an organisation hierarchy was a source of power largely independent of the use of behavioural tactics;
b) that hierarchical level is the most easily recognisable, legitimate structural position; and
c) subordinates and superiors understood the power relationships existing within the hierarchy and behavioural tactics were not needed to convey this message.

The further from the central power positions within a hierarchy, however, the greater the need arises to use behavioural tactics to acquire power.

Brass and Burkhardt's work reflects the relationship between those occupying superior hierarchical positions and others. There is a second element to this, however, which is the importance of the personal attributes of the position holder in the acquisition and exercise of power and influence in relation to other board members with equal hierarchical status (Pettigrew and McNulty, 1995, 1998, McNulty, Pettigrew et al 2011). Writing about the exercise of power by individuals sitting on boards, Pettigrew and McNulty (1995) have noted *"The structural analysis of power directs the analyst to the possession and control of power sources such as position, rewards, and sanctions and information. The relational treatment of power (defined here as influence) tilts the analyst to explore will and skill in creating and using the power sources potentially available*" (p.852).

Discussing the role of part-time members of the board Pettigrew and McNulty (1995) have identified three elements that shape the exercise of power and influence by such board participants. First, there are the structures and contexts they participate in and the organisational, legal and societal attitudes that shape the directors' interpretation of their roles. Secondly, the part-time director must create a power base from which power is exercised. Finally, there must be a willingness on the part of the part-time board member to use the power sources available together with the skill required to exploit such sources. Without the will and skill, the power available will be potential power rather than realised power. Even with structural legitimacy, a board member, or by extension, a member of a board committee, family council or family assembly may fail to utilise the power available to them because they lack the necessary will and skill. In the context of family companies, this may enable more skilful board/committee members, who may not necessarily be family members, or more skilful family council members, to exercise greater power and influence.

The separation of CEO/Chair has been referred to above. McNulty, Pettigrew et al. (2011) have paid particular attention to the power and influence of company board Chairs. Their empirical work, based on a sample of 160 Chairs from FTSE listed companies, has sought to identify the strength and type of power attaching to Chairs and this work has highlighted the difference in influence exerted by different types of Chairs. In particular, full-time Executive Chairs were seen to exert the greatest influence in strategy and resource dependency whereas a part-time Non-Executive Chair appeared to exert greater influence over monitoring and control tasks. Their differing Chair power models took into account whether Chairs were executive or non-executive, full-time or part-time and insiders or outsiders. Drawing on the work of Finkelstein (1992), four power sources were examined: structural; ownership; prestige; and expert. The model that was developed predicted high overall power potentially attaching to full-time Executive Chairs whose power base was derived from structural, expert and ownership power bases.

The importance of McNulty, Pettigrew et al. (2011) work in family governance terms lies in the board roles performed by family members and the roles performed in related committees. The structural and behavioural analysis highlights the potential power bases open to the family through contractual governance mechanisms but indicates the need for that potential to be realised through the skills and attributes of the individuals occupying the positions (Pfeffer 1981; Brass and Burkhardt 1993; Pettigrew and McNulty 1995; 1998, McNulty et al. 2011). This work emphasises how important it may be for family members to have sufficient capability to assume roles within the company in order to maintain family power and influence. The selection process of such family members may be, in itself, a significant mechanism through which the family may retain power and influence. The analysis may also explain why certain family members may emerge as family leaders and assume particular roles in the company. Alternatively, the absence of family members possessing the appropriate attributes raises serious questions about the type of governance arrangements the family may need to establish to retain power and influence and address agency issues arising (Zellweger and Kammerlander 2015).

In seeking to understand the disposition of power between the company and the family and intra-family in multi-generation family owned companies the above discussion has highlighted the need to address two particular issues. The first is the need to recognise the episodic power located in the governance rules, procedures and systems created by the family within and around the company, which legitimises the authority of individual family members or groups

of family members. It is noted that the power literature reflects the governance literature in that it only refers to rules, procedures and systems created within the company. A major contribution this thesis makes is to demonstrate the need to understand that rules, procedures and systems created outside the company via relational governance mechanisms are alternative sources of episodic power open to the family. The second issue refers to the behavioural aspect of the exercise of power, and in particular, the ability of those family members holding positions of legitimate power and influence to exercise the power acquired effectively. This issue links into the discussion of family altruism referred to in the agency literature and highlights the need to appoint capable family member to a governance role (Lubatkin, Schulze et al 2005).

3.4.3 Family Power in the familiness literature

The highlighted theme running through the literature review has been the absence of reference to relational governance mechanisms in relation to company decision making. Suess' (2014) argument is that relational governance mechanisms operate outside the company and seek to separate the family from the company. This position is reflected in the familiness literature, and in particular, in two scales developed to measure familiness in family owned companies.

The board is positioned as the major governance mechanism through which power and influence is exercised. Two definitions of familiness are relevant to this aspect of family power and influence. The first is the F-PEC scale of Family Influence, on Power, Experience and Culture constructed by Klein, Astrachan et al (2005). In this scale familiness is defined by three dimensions: Power; Experience; and Culture. These three elements measure family influence over a company, the authors arguing that it is the influence of the owning family that makes a business a family business.

The elements in the scale relating to the Power dimension makes clear the authors' conception of power, which relates to the family's physical dominance of ownership, management and governance. The measurement criteria defining the Power dimension, therefore, relates to the percentage of shares held, the percentage of top management positions held by the family and percentage of board seats occupied by family members. These are identified in the scale as the only mechanisms through which family power and influence over decision management and decision control can be exercised. There is no reference to relational governance mechanisms in the scale.

The second familiness measure reflects a similar view. This is the Familiness Influence Familiness Scale (FIFS) of Frank, Kessler et al (2017). This scale has been developed on the basis of new systems theory (nST) and integrates three notions: involvement; essence; and identity. As with the F-PEC scale, this scale seeks to measure how the business family influences the structure of the business. For the purposes of the scale, involvement is framed in terms of ownership and control, essence captures a number of behavioural aspects and identity refers to the organisational identity. In the context of the involvement dimension, which measures ownership and control, the scale includes such statements as

a) in our family business we take great care that only family members are owners of the firm;
b) in our family business we take great care that the firm's management consists exclusively of family members;
c) in our family we take great care that family control and independence are maintained'.

As with the F-PEC scale, this scale again conveys the notion that control is a measure of the family's physical dominance of ownership and management, including the board. As with the F-PEC scale there is again no reference to relational governance mechanisms.

The F-PEC and the FIFS scales' descriptions of control in the context of familiness suggest;

a) family dominance of management and/or the board is evidence of the continuing power and influence of the family over the company; and
b) a lack of family dominance over management and the board is evidence of the loss of family power and influence over the company.

This is the conception of family power and influence proposed by the literature. This conception is consistent with the governance literature regarding the role of the board, the regulatory provision promoting the primacy of the board and the episodic power attaching to it. This thesis will argue, however, that this explanation of family power and influence is too narrowly conceived. In particular, it will argue that this conception fails to capture the alternative ways in which a family may continue to exercise power where few family members are involved in management or the board.

Two particular aspects are missing from the measures set out in the F-PEC and FIFS scales. The first is the role relational governance mechanisms can play in structurally enabling the family to access power and influence over specific aspects of decision making. In this context, relational governance mechanisms may serve to remove powers from the board or require board powers to be exercised in collaboration with specific relational governance mechanisms.

Secondly, there is the informal exercise of power residing in individuals or groups within the family, which is exercised in and around the company. This is a specific relational governance mechanism and reflects aspects of McNulty, Pettigrew et al (2011) and Pettigrew and McNulty's (1995) behavioural work on personal power within companies and the impact of will and skill. Their findings, however, need to be understood in the context of the role of informal relational governance mechanisms rather than just in the context of the board.

Recognising the limitations of the family power conception set out in current literature is significant. First, the F-PEC and FIFS scales may fail to identify fully those companies where the family continues to retain power and influence over the company. Secondly, this conception of family power has been accepted by or has informed a number of theoretical propositions. This will be examined further in the third part of this literature review.

3.5 Part C: Family Company Objectives, Socioemotional wealth and conflict

Strategic goal setting is an important area for the exercise of family power and influence. Family company research recognises the heterogeneous nature of such goals. The complexity of establishing common goals and the potential for family disagreement is reflected in the work of Johannisson and Huse (2000), for example, who note the contrasting world views and ideologies of family businesses. Johannisson and Huse define ideology as a way of appreciating and perceiving the world that generates specific modes of conduct. This implies differing corporate objectives. They argue that family businesses may play host to several competing ideologies, which they categorise as entrepreneurialism, managerialism and paternalism. These, in Johannisson and Huse's opinion, may be a source of constructive tension and give rise to intra-family conflicts of interest. Such conflicts of interest may, for example, be between different family generations, different family ownership groupings and family and non-family management. Further, the influence of the competing ideologies may change over time. In such circumstances, wealth maximisation may not be the principal corporate objective. Other imperatives, linked to lifestyle choices, the need to protect and provide for family members and the need to mitigate family conflict may be of greater concern on a day-to-day basis. What

might appear as economically irrational may be perfectly explicable in the context of family imperatives. Contrary to the agency perspective noted above (Schultze, Lubatkin et al. 2001, Schulze, Lubatkin et al. 2003, Lubatkin, Schulze et al. 2005, Lubatkin, Durand et al. 2007), altruistic decision making in such circumstances is not something to be controlled and restrained but may be a major strategic objective, as argued by stewardship theory. The non-pecuniary welfare accruing to the family as a consequence of such altruism may be more significant than economic rewards.

Johannisson and Huse's (2000) view is shared by other authors and it is implicit from differing theoretical perspectives that no assumption can be made regarding family company objectives. Empirical studies have identified a focus on non-financial imperatives in family firms including intentions that voting shares are not sold outside the family, of passing the business on to the next generation, and of the provision of employment to family members (Westhead and Howorth 2006). Such a focus forms the basis of differences in objectives and management concerns between family and non-family firms. Non-financial imperatives may also be reflected in areas such as the employment of family members, promotion criteria based on family kinship, the form of engagement with the firm's market, the supplier and customer base, and the level of investment in long-term capital investments (Westhead 1997).

Nor will this position necessarily change if shareholding is diffused. In a comparative study of first and multi-generational family firms, no evidence was found that family control was diluted over time and that in both types of family firms ownership was based on closely held family shareholding. In multi-generational firms a larger proportion of management were drawn from the family, CEOs served longer apprenticeships, more family members were engaged, the boards were larger and were more likely to have employed a non-executive director, but both types of firms were taken to be control adverse (Westhead, Cowling et al. 2001). Interestingly, the presence of non-executive directors in a separate study was not found to reduce the focus on non-financial objectives (Westhead and Howorth 2006). It was noted that a critical issue in the focus of corporate objectives may be the presence or otherwise of external capital. In the context of this inquiry, the case study companies have been deliberately chosen because they have no significant non-family shareholders.

The capabilities and aspirations of family companies has been discussed in detail by Carney (2005). Carney identifies three unique characteristics of the family firm – parsimony, personalisation and particularism – affecting family governance. Parsimony reflects family

ownership of the firm's resources and the prudent attitude towards the deployment of the resources. As noted elsewhere, Carney recognises the reduction in agency issues where management and control are fused but goes on to note that in the family firm context this will provide greater incentives for cost efficiency. Personalism reflects the concentration of ownership in the hands of the family and the freedom the family has to pursue its interests. Particularism reflects an ability of family companies to discriminate between arm's length and relational contracting.

Two sources of competitive advantage are identified arising from personalism and particularism: first, family firms build social capital based upon the unique family relationships within the firm; secondly, firms can make quicker investment/divestment decisions. In summary, these forms of family governance give rise to efficiency, social capital and the potential for opportunistic investment, which are the basis of a family firm's competitive advantage. These characteristics may be shared by other types of firm but, Carney argues, family firms differ in that they institutionalise them rather than dissipating them through seeking outside equity participation or prematurely professionalising management. By 'professionalising' Carney is referring to the use of non-family managers. Carney's work has been added to by later studies (Salvato and Melin 2008, Berent-Braun and Uhlaner 2012).

There is a limitation to this in multi-generation family owned companies where personalism and particularism may be threatened by the involvement of non-family managers and owners. The physical presence of the family and their active involvement in management and governance is implicit in Carney's analysis. Replacing the family with non-family decision makers removes the sources of competitive advantage. This is consistent with the F-PEC and FIFS conceptions of family power and influence.

Although agency and stewardship perspectives have driven much academic work in the family company domain, alternative theoretical perspectives have been developed seeking to differentiate family companies from other types of firms. Chrisman, Chua et al. (2005), for example, have noted how family aspirations and capabilities contribute to the strategy and operations of the company and enable the company to develop a character and culture that is unique. A significant alternative perspective, based on the particular decision behaviours of family companies is presented in the socioemotional wealth model.

3.5.1 Socioemotional Wealth

The notion of socioemotional wealth (SEW) seeks to develop a paradigm separate from agency, stewardship, and resource based theories that captures the particular decision making behaviours of family firms.

Power, through ownership, is at the heart of this perspective. Zellweger, Chrisman et al (2019) have summarised the position:

> *The embeddedness, and the legitimacy and power that the family may exercise as a result of the propriety rights secured through controlling ownership allows the family to pursue family-orientated non financial goals that generate socioemotional wealth (SEW), which are rarely present and would be considered illegitimate in a non family firm* (p.208).

The nature of socioemotional wealth is contested but for some it is effectively an intangible asset, alongside other intangibles such as goodwill or brand reputation, that gives the individual family firm, and family firms as a category of organisations, a unique framework for decision making and strategic goal setting. It is argued that socioemotional wealth is of such importance to family firms that in some circumstances they will prioritise the maintenance of it over financial performance and display greater risk aversion to the loss of such wealth in comparison to risk aversion to financial loss (Gómez-Mejía, Haynes et al. 2007 ; Berrone, Cruz et al. 2012; Martin and Gómez-Mejía 2016);

> *Simply put, the SEW model suggests that family firms are typically motivated by, and committed to, the presentation of their SEW, referring to non-financial aspects or 'affective endowments' of family owners. In this formulation, gains or losses in SEW represent the pivotal frame of reference that family controlled firms use to make major strategic choices and policy decisions (Berrone, Cruz et al. 2012, p.259).*

The socioemotional endowment is a stock of affect related value, therefore, which the family enjoys because of the power and influence it has over the company. Aspects of this endowment are reflected in the personal authority of family members within a firm, the influence of the family over business matters, the appointment of family members to important posts, the continuation of the family dynasty and close identification with the firm carrying the family name.

The socioemotional wealth model is drawn from prospect and behavioural agency theories and discussion is centred on risk and decision-making. The socioemotional wealth model rejects the agency theory model of risk. Agency theory provides that principals will be risk neutral because of their ability to manage their shareholding within a portfolio of shares, while agents, whose wealth is tied to employment and to the success of the firm, will be risk averse. This view is considered to be too narrow by prospect and behavioural agency theorists. Here, risk preferences, and thus risk taking behaviours, change with the framing of the problem, which is characterised in terms of either potential gains or potential losses. The notion of risk aversion, posited within the agency model, is replaced with the notion of loss aversion. The risk preference of decision makers will be framed by reference to the problem, a distinction being made between making a loss and minimising a loss. It is argued that a higher risk will be accepted in order to avoid a loss, because of the attitude of loss aversion.

In the context of the socioemotional wealth model, the notion of what may be lost goes beyond financial wealth and takes into account those endowments referred to above which are unique to family firms. The model proposes, therefore, that in certain circumstances, the need to avoid the loss of family endowments will take precedence over financial performance, even if this impacts upon financial profitability. The risk preferences of decision makers will change based upon the prospects of the changes to family endowments (Gómez-Mejía, Haynes et al. 2007, Berrone, Cruz et al. 2012, Chua, Chrisman et al. 2015).

Cruz and Arrendondo (2016) argue that socioemotional wealth is a theoretical approach to predict family owners' behaviour regarding strategic risk taking. It is not a theory of familiness. Two points arise. The first is what the dimensions of socioemotional wealth are that frame decision making. The second are the conditions within which the family retains control over the decision making process and can express those risk preferences.

In relation to the first point, Berrone, Cruz et al (2012) propose five dimensions of socioemotional wealth, based on a synthesis of previous research, which they label FIBER. The five dimensions are

a) Family control and influence;
b) Identification by family members with the firm;
c) Binding social ties;
d) Emotional attachment; and
e) Renewal of family bonds to the firm through dynastic succession.

The purpose of FIBER is to understand the nature of socioemotional wealth in a company in order to understand the decision making preferences. Berrone, Cruz et al (2012), therefore, have compiled a list of 27 proposed survey items grouped under the five dimensions. Some of these are factual. For example, under the dimension of 'Family Control and Influence' there is the statement, 'The majority of the shares in my family business are owned by family members'. Others, however, are more qualitative in nature and seek to obtain responses revealing the attitudes and opinions of family members. Under the' Identification of family members with the firm', for example, there is the statement, 'Customers often associate the family name with the family business's products and services'. The dimensions and survey items are set out in full in appendix 1.

A comparison need be made between the FIBER scale and the F-PEC and the FIFS 'familiness' measurement scales. The influence of the F-PEC scale on the framing of the FIBER dimensions is acknowledged by Berrone, Cruz et al (2012). The FIBER scale, however, is not intended to measure 'familiness' per se, rather the proposed items are items to be included in a questionnaire to capture the different dimensions of socioemotional wealth. Though formulated at the individual level, they seek to capture the individual's perception of a family's attitudes. These attitudes will indicate the strength of the different dimensions at a particular point and may vary within a company over time. Understanding strengths of the different dimensions will provide insights into decision preferences and loss aversion concerns.

What is significant, however, is the consistency between the conception of 'Family Control and Influence' in the FIBER scale with those reflected in the F-PEC and FIFS scales. The criteria set out in the FIBER scale under the 'Family Control and Influence' dimension are as follows:

a) The majority of the shares in my family business are owned by family members
b) In my family business most executive positions are occupied by family members
c) In my family business non-family managers and directors are named by family members
d) The board of directors is mainly composed of family members
e) Preservation of control and independence are important goals for my family business

f) In my family business, family members exert control over the company's strategic decisions

The statements above reflect a conception of power shared with the F-PEC and FIFS scales based on the physical domination of ownership, management and the board by the family. The scale sets out the impact of this dominance in terms of controlling the employment of non-family individuals, strategic decision making and goal setting. As with the F-PEC and FIFS scales, the FIBER scale does not refer to relational governance mechanisms or to the ability of family members to exercise power and influence in and around the company outside management and the board. The discussion below will show how the FIBER conception has influenced the discussion of the scope of the socioemotional wealth model.

Despite Gómez-Mejía, Haynes et al's (2007) significant academic work, the socioemotional wealth model is not without its ambiguities and uncertainties. Chua, Chrisman et al. (2015), for example, have sought to clarify the nature of socioemotional wealth using the accounting notions of flows and stock. Drawing parallels with economic goals where profit (flows) will lead to the accumulation of financial wealth (stock) then so too must SEW, like any asset, be created through the flow-like qualities of the family centred non-economic goals. They argue that the five dimensions noted above contain undifferentiated flows and stocks that require further research.

The separation of flows and stocks is considered relevant because of their relationship to one another and to economic flows and stocks. The potential of differential non-economic and economic flows and non-economic and economic stocks may, they suggest, be an important source of heterogeneity among family firms.

The nature of socioemotional wealth as an intangible asset is also explored. In particular, Chua, Chrisman et al (2015) raise the question of the extent to which socioemotional wealth, as a stock of wealth, is inherent in a family firm and the extent to which it needs to be invested in. In the context of the latter, they ask whether families consciously invest in socioemotional wealth and actively seek to accumulate it over time. This would appear to question the position of Gómez-Mejía, Haynes et al. (2007) and Berrrone, Cruz et al (2012) that strategic decision-making in family firms is predominantly framed by socioemotional wealth maintenance concerns.

Chua, Chrisman et al (2015) also speculate on the complex relationship between decision-making and socioemotional wealth. Decisions of both an economic and non-economic nature may, for example, cause particular dimensions of socioemotional wealth to increase while others diminish. They note too, based on previous scholarship, how family centred non-economic benefits and socioemotional wealth may be context and time dependent.

Commenting on these reflections, Cruz and Arrendondo (2016) argue that the five dimensions of FIBER should all be treated as stocks as they reflect the multi-dimensional nature of the socioemotional wealth concept. They agree, however, that the different components will evolve differently over time and that family companies may behave differently depending on the predominant FIBER dimension.

More broadly, Miller and Le Breton-Miller (2014) have questioned the utility of the socioemotional wealth concept, and in particular have raised issues regarding the potential for different types of socioemotional wealth, the potential for diverse socioemotional wealth outcomes, the link between cause and effect, and the failure of research to assess socioemotional wealth directly. They have noted:

> *in short, the very diversity of the nature of SEW priorities, the tenuous linkages between cause and effect, and the non-specificity of some outcomes to family concerns, demand that we be precise in specifying and examining the locus, drivers and causal implications of its various components* (p.716).

In the context of multi-generational family firms, Miller and Le-Breton Miller (2014) argue for the need to differentiate between a 'restricted view' of socioemotional wealth and an 'extended' view. The former, which is characterised as an instrumental view, is concerned with family job security and the provision of access to business resources for immediate family members. Kellermanns, Eddleston and Zellweger (2012) have referred to the 'dark side' of this instrumental approach to family welfare, which might disfavour minority shareholders. Miller and Le Breton Miller's extended view, founded in stewardship and stakeholder theory, seeks to ensure the long-term survival of the firm to the benefit of family and a broader group of stakeholders. Newbert and Craig (2017) have extended this argument and see the potential for the extended view to be part of a normative theory of decision-making to the benefit of a broader category of stakeholders. This would appear to relocate SEW within a stakeholder theory construct.

The second point noted above refers to the conditions within which the family retains control over decision making processes. The nature of socioemotional wealth has been examined by Schulze and Kellermanns (2015). In addition to challenging the research designs of studies and reliance on a common set of assumptions underpinning socioemotional wealth, and in particular, the use of *"coarse proxies to document the presence of affective endowement"* (p.449), Schulze and Kellermanns refer to the uncertainties in relation to such issues as family stage, firm age and organisational size. Further, they have raised questions over three theoretical issues – controlling ownership, where and in whom SEW resides and transgenerational intentions – that they believe "*threaten to confound the validity"* (p.454) of the dimensions set out by Berrone, Cruz et al. (2012).

For the purposes of this inquiry the discussion of family stage and firm age are relevant. The family company life cycle literature emphasise a linear development of the company and a dispersion of shares across multiple family members at each stage of inheritance. The assumption is of a growing number of shareholders across multiple family branches. The dispersion of shares across multiple family members is seen to weaken the ties between the members and the firm impacting upon the socioemotional wealth as involvement and attachments change. Le Breton-Miller and Miller (2013) highlight the potential for conflict in cousin consortia companies as the priorities vary across family members/groupings. Other researchers have argued a greater willingness on the part of the family to give up power and control to non-family owners as the firm moves through the three stage lifecycle (Lane, Astrachan et al. 2006, Gómez-Mejía, Haynes et al. 2007). The model would also assume a withdrawal of the family from the management and governance of the firm and the engagement of non-family members.

Referring back to the theoretical focus of the socioemotional wealth model, Lim, Lubatkin and Wiseman (2010) argue that the risk taking propensities of family firms will differ across different types of family firms. It has been previously noted in the context of the agency theory discussion that horizontal agency issues may exist in addition to vertical issues. As a result, risk taking preferences intra-family may vary according to the individual perceptions of family members of the notion of loss. Who has the power to make strategic decisions becomes an important matter. Further, they comment on family risk preferences at the firm level based on the three life cycle stages. Their arguments reflect the common notion within the socioemotional wealth literature of the weakening of bonds at the cousin consortium stage as a result of the distance between family members and the firm. They argue that cousins will

develop careers outside of the family firms because of the limited opportunities, will interact less with other cousins, will reflect a diminishing sense of concern for maintaining the family business and will be '*less interested in maintaining control of the firm"* (page 203). Further, as diffusion takes place, no one single person will retain control and professional managers will be employed.

As a result, Lim, Lubatkin and Wiseman (2010) argue that the risk preferences of cousins may come to resemble those of risk neutral institutional investors and the governance structure will come to resemble that of a publically traded company. This statement is significant, as it was noted above that the agency model's acceptance of the risk neutral position of the principal was rejected by behavioural agency theory, which was the basis of the socioemotional wealth model. This would appear, therefore, to question the very applicability of the socioemotional wealth model to cousin consortium firms with diffused shareholding because of the transfer of the decision management and decision control to professional managers.

The influence of the F-PEC and the FIFS conceptions of family power and influence based on the family's physical domination and reflected in the FIBER analysis is evident in Lim, Lubatkin and Wiseman's (2010) description of the condition of relationships in cousin consortium companies. The lack of physical control of management and the board is associated with loss of control over decision-making. Once again, no consideration is given to the impact of relational governance mechanisms nor the personal exercise of power and influence outside of the contractual governance structure by individual or groups of family shareholders.

The applicability of the socioemotional wealth theory to multi- generation family companies, therefore, is challenged by some authors on the basis that the family does not retain power and influence over company decision making. Berrone, Cruz et al (2012) have provided a list of explicit research questions that reveal the lack of data in this area and the questions that remain unanswered. Two areas referred to are relevant to this inquiry. First, they have noted that research needs to examine how socioemotional wealth evolves over time and generations. They have explicitly stated that they would expect losses in socioemotional wealth to weigh less heavily in companies at the cousin consortium stage because of the extended shareholder base and the involvement of what they term professional management, that is, non-family management. This expectation is challenged by this thesis on the basis that

the conception of 'Family Control and Influence' as expressed in the FIBER scale is too narrowly defined, and has been too influenced by the F-PEC conception of family power and influence.

Secondly, Berrone, Cruz et al (2012) have raised the issue of governance and suggested that greater attention should be paid, in particular, to the board. This is relevant given that socioemotional wealth is drawn from the behavioural agency literature. Here research is directed towards the different motives guiding decision making on a family company board in the context of socioemotional wealth and attitudes towards loss aversion. Again, this thesis challenges this view and argues that decision making must be understood in a broader governance context, and in particular, one that includes relational mechanisms as well as the board.

In the context of this study of family power and influence, socioemotional wealth is of significant interest because of its relevance to the distinctive company objectives arising from family control and the achievement of those objectives through family influenced company decision making. It was noted above that the affective endowments include the personal authority of family members within a firm, the influence of the family over business matters, the appointment of family members to important posts, the continuation of the family dynasty and the close identification with the firm carrying the family name. As argued by Cruz and Arrendondo (2016), however, the nature of the individual FIBER dimensions will vary over time. This thesis will demonstrate that although the nature of socioemotional wealth as reflected in the different FIBER dimensions may change through transgenerational succession, the family may nevertheless retain an interest in the company that is more than Lane, Astrachan et al. (2006) 'portfolio' interest through its retention of power and influence over decision making. It is implicit that the family's desire to maintain power and influence is driven by its wish not to be reduced to a group of uninvolved investors whose only interest is in a dividend stream and a postponed capital receipt. The means by which such power and influence are maintained are not necessarily those conceived, however, in the FIBER and related F-PEC and FIFS scales and alternatives routes exist enabling the family to continue to exercise power and influence. This thesis will provide an alternative explanation to add to our understanding of how family power and influence can be exercised.

3.5.2 Family Consensus and Conflict

The decision behaviour of the family is central to the socioemotional wealth model. The discussion above has implicitly assumed consensus in relation to family loss aversion

preferences and the balance struck between family and financial objectives. In complex multi-generation companies, however, there may be individual and factional family conflict rather than consensus.

Kotlar and De Massis (2013) have shed light on the formation of a collective commitment to family company goals. Their starting point is not consensus but significant diversity across participants in family companies. The individual goal diversity arising from membership, ownership, generational involvement and the different stages of intra-family succession triggers a set of goal-centred social interactions, falling into a bargaining stage and a stabilisation mode. The social interactions are characterised into two types: professional social interactions; and familial social interactions. The former are more formal and take place in a business setting while the latter are more informal interactions between family members outside the formal business setting. Kotlar and De Massis argue that a collective commitment to family centred goals is more likely to arise in familial social interactions. The role given to business and familial social interactions at the bargaining stage highlights the role relational governance mechanisms may play in addressing conflict

Conflict in multi-generation companies is of interest because:

a) conflict in the family may weaken the family's position in relation to non-family management and a power vacuum may be created to the long-term detriment of the family as non-family management assume a dominant power role in setting strategy, rewards and objectives. Vertical agency issues arise;
b) Horizontal agency issues highlighted above may arise because of differential power structures within the family shareholder group; and
c) Conflict and horizontal agency issues may arise across generations as power and influence moves between family members.

There is limited academic work in the family company area and in seeking to understand family company dynamics researchers have drawn from the organisational conflict literature.

3.5.3 Intragroup Conflict Studies

Conflict is a subjective experience with both affective and cognitive components (van de Vliert and de Dreu 1994) which can affect the psychological health of the organisation and may represents a breakdown in the normal operations of an organisation (Pondy 1967).

Scholars have sought to identify the types of conflict reported or observed and have measured their impact on performance (Barki and Hartwick 2004, Korsgaard, Jeong et al. 2008). An accepted typology is that of Jehn (1995, Jehn 1997) who has categorised three distinct types of conflict: relationship, task and process.

Affective (Guetzkow and Gyr 1954), emotional (Cosier and Rose 1977) or relationship conflicts (Jehn 1995) are conflicts arising from personal disagreements and incompatibilities and reflect animosities, annoyance and personality differences between individuals. This type of conflict is founded in emotion and the terms used to describe its expression – resentment, tension, friction, anger, frustration – emphasise that emotional element.

Secondly, cognitive (Guetzkow and Gyr 1954), goal (Cosier and Rose 1977) or task conflict (Jehn 1995) refers to the disagreements that arise between individuals or groups about a task performed or a goal being established and is concerned with differences in ideas and opinions. It is implicit that this lacks an emotional content and is concerned with the intellectual responses to the substantive details of a task or decision – such as ideas, goals, procedures, viewpoints and opinions. The third type of conflict; process conflict (Jehn 1997) is concerned with how a task is performed.

A number of studies have identified the significant roles value similarity, intra-group trust and altruism play in both the development of conflict and the inter-relationship between task conflict and relationship conflict. The presence of shared values across and within groups will limit the potential for relationship or task conflict to develop. Individuals with shared values, including family shareholders, are more likely to agree on medium-term goals and to have formed closer professional relationships. Such relationships may prevent disagreement being perceived as conflict. Guinot et al. (2015) have argued that altruistic behaviours in organisations can reduce relationship conflict by providing a means for individuals to build affective and emotional connections. This is consistent with the stewardship perspective. In the context of family firms the work on values, trust and altruism is significant given the discussion of trust and altruism in the governance literature (Jehn et al 1997: Jehn et al 1999; Steier 2001; Camelo-Ordaz, Garcia-Cruz et al 2014*).*

The work on organisational conflict is relevant to family companies in a number of ways. Generational succession and the introduction of non-family members will change family relationships. Steier (2001), for example, has addressed the changing nature of trust in family firms. Further, Suess' (2014) synthesis and propositions in relation to the impact of family

governance mechanisms has set out the means by which a family can actively address issues of trust, values, identity, cohesion and respect as transgenerational succession changes the shareholder profile.

3.5.4 Family Company Conflict Studies

Few conflict studies have focused on family owned companies but the findings have generally confirmed those of the organisation studies in respect to the positive impact of altruism and the negative impact of relationship conflict (Kellermanns and Eddleston 2004, Kellermanns and Eddleston 2007, Eddleston, Otondo et al. 2008).

Kellermanns and Eddleston's (2007) work confirmed the negative impact on performance of task conflict but found that process conflict was not significantly related to performance. They generally concluded that the impact of conflict is dependent upon the psychodynamic influences of family involvement. Two moderators were examined in detail: family member exchange and generational ownership dispersion.

In relation to family member exchange, and contrary to expectations, high levels of performance were associated with low task conflict/high family member exchange or high task conflict/low family member exchange. Generational ownership dispersion was found to moderate the relationship between task conflict and performance, the general finding being that task conflict was more detrimental to performance when ownership was dispersed across generations.

Building on this literature, Eddleston, Otondo et al. (2008) considered the relationship between conflict, generational ownership dispersion and participation in decision-making. The results supported the negative relationship between participative decision-making and relationship conflict but unexpectedly found that higher levels of participative decision-making decreased task conflict significantly. This second finding was contrary to expectations but was consistent with Kellermanns and Eddleston's (2007) findings of the beneficial impact on performance of low task conflict/high family member exchange. The issue could be one of definition. Eddleston, Otondo et al. (2008) noted, *"a participative environment may promote cognitive conflict because family members feel free to discuss and debate firm goals and strategies"* (p.461). There is a question of whether discussion and debate can be so readily associated with task conflict as is suggested by this quotation. Barki and Hartwick (2004) would argue that without the combination of interference, negative emotion and disagreement there

is no conflict. Similarly, Schmidt and Kockan (1972) would argue that an experience missing the behavioural responses of interference is an expression of competition and not conflict. Also, discussion and debate in the context of Eddleston, Otondo et al.'s study may be an expression of Kellermanns and Eddleston's family member exchange.

A third finding reflected the more complex relationship faced when examining the impact of generational ownership dispersion. In the case of first and second generational firms it was found that higher levels of participative decision-making decreased both task and relationship conflict. In multigenerational firms, however, it was found that both types of conflict increased. Reflecting on the complex conflict management issues this poses in multi-generational firms the authors highlighted the need to control the detrimental effect of relationship conflict while at the same time taking advantage of the potential positive effects of task conflict. These studies raise questions about the role of governance mechanisms in supporting family participation in decision-making, given the potential for task and relationship conflict.

3.5.5 Governance and the Management of Conflict

In the context of this inquiry, the above discussion is of relevance because of the insights provided into the potential nature and impact of family conflict. The basic argument is that intra-family conflict could diminish a family's power and influence over the family asset because of a lack of consensus. Sorenson (1999) has identified five alternative management strategies used by family businesses to manage conflict, they being termed competition, avoidance, compromise, collaboration and accommodation. In the context of business and family interests, collaboration is seen to be the most effective conflict management strategy and a particular role is given to relational governance mechanisms. In the case of a collaborative strategy, Sorenson has noted:

> *Families and family businesses interested in increasing levels of collaboration might consider providing forums in which individuals can express their concerns and have those concerns addressed. For example, in families, family councils that plan and solve problems could provide a vehicle for increased collaboration. In family businesses, formal planning and coordinating meetings that encourage family members to express their concerns and that deal directly and effectively with these concerns can increase collaboration and set the tone for collaboration in other interpersonal settings* (Sorensen 1999 p.338).

This is consistent with Suess' propositions regarding the role of family or relational governance mechanisms.

3.6 Conclusions

Two issues have emerged from the literature review of particular relevance to this inquiry. The first relates to the roles attributed to contractual and relational governance mechanisms by current literature. The discussion has demonstrated the regulatory and theoretical attention paid to the board as the major contractual governance mechanism through which power and influence is exercised within a company. The review has set out the multi-theoretic roles attributed to the board, and in particular, agency, stewardship and stakeholder theories. Particular attention has been paid to the agency role of the board in addressing the issues arising from the separation of de jure and de facto control. Owner-management in first and second generation family owned companies may eliminate agency issues but transgenerational succession gives rise to both vertical and horizontal issues. Even in the first and second generation companies, however, it has been argued that specific agency issues linked to altruism may arise.

The review has noted that no corporate role is attributed to relational governance. Relational governance is seen to operate outside the company and its purpose is the governance of family relationships. This view is consistent with that reflected in the regulatory provisions discussed in chapter 2.

The second issue arises from the first. Through the power and familiness literature, the review has sought to isolate the conception of power in family companies reflected in current theoretical perspectives. Based on the measurement criteria set out in the F-PEC and FIFS scales, power and influence is linked to the family's physical dominance of management and the board. Where the family has control of management and the board, or at least the board, the family is regarded as maintaining power and influence over decision management and decision control. Where the family is not so involved in management and the board, power and influence over company decision making is seen to be vested in others.

This conception of family power is significant, as the review has shown how it has influenced the life cycle literature, Carney's (2005) work on competitive advantages of family companies and on the socioemotional wealth literature. In all these areas, the separation of the family from physical domination of management and the board is seen to weaken the power and influence of the family over corporate decision making. In the socioemotional wealth literature

this has raised questions regarding the very applicability of that model to cousin consortium companies.

This chapter has set out how much of the current literature on family governance and power can be challenged. This thesis will demonstrate that the conception of family power and influence presented in the F-PEC and FIFS scales, and repeated in the FIBER scale, is too narrow and there are alternative sources of power available to the family other than the board. Two particular alternative sources are posited. First, relational governance mechanisms can play a broader role in the governance of the company as well as the governance of the family. These relational governance mechanisms can work to remove from the board decision making authority, or require the board to engage collaboratively to share responsibility for decision making. The recognition that relational governance mechanisms are an alternative source of episodic power in relation to the company is a major contribution this thesis makes. Secondly, there is a behavioural point. Current family governance literature fails to recognise the power and influence of informal relational mechanisms linked to the personal or group authority of particular family members. These members may work in and around the contractual governance mechanisms to ensure family power and influence is exercised in respect of specific areas of company decision making.

The analysis and synthesis presented in chapters 5, 6 and 7 will demonstrate the need to revise current conceptions of the sources of family power and influence in multi-generation family owned companies and the theoretical perspectives dependent upon those conceptions.

Chapter 4: Methodology

4.1 Introduction

This inquiry is located in a naturalistic/constructivist paradigm and uses multiple case studies to explore the research questions. It is an investigatory/exploratory study that seeks to understand what specific governance mechanisms have been adopted by three wholly owned fifth or more generation private family companies and how those governance mechanisms enable the family to exercise power and influence over company decision making.

Multi-generation family companies have been selected because they represents a small group of family companies with complex characteristics based on their longevity and family blood history. The survival of such companies as family companies may be based on the adoption of particular governance mechanisms that have enabled the family to adapt to the changing nature of family ownership and involvement, manage conflict and achieve consensus.

The companies examined in this study share one common ownership characteristic: there are no significant external shareholders and there is only a family shareholder 'voice'. Within this very specific category of family companies, however, there is heterogeneity and the selection of case studies aimed for variation. Such variation is found in shareholder rights, shareholder profiles, the number and nature of family members involved in management and the board, the disposition of power and influence in the family, and the governance mechanisms adopted.

Examining private multi-generation family companies provides particular insights into the research questions being examined. Much empirical research on the governance of large family firms is located in a positivist paradigm with archival data being drawn from public datasets or from a constructed family company database (Zellweger, Kellermanns et al 2012, Miller, Minichilli et al 2013, Schulze and Kellermanns 2015, Fattoum-Guedri 2018). Companies in such studies are typically at an early generational stage in their lifecycle, are publicly quoted and as a result have significant non-family shareholders. In the absence of other definitions, proxies based, for example, on the proportion of family shareholding are often employed to define 'family' control and decision-making. The assumption that power and influence is located in the family in such circumstances may not necessarily be correct, but the limited access to data prevents this issue being explored further. No proxies need be employed in this inquiry.

Additionally, no family governance studies have specifically examined how families might use relational governance mechanisms as a source of family power and influence and there is a gap in the literature. This inquiry will contribute to an understanding of how families access power and influence in multi-generation companies through relational governance mechanisms.

The literature review has highlighted that there is no single theoretical perspective that fully explains the behaviours and actions of family companies in governance, strategy and other contexts and this point is reflected in the ontological, epistemological and methodological positioning of this study.

4.2 Ontological,Epistemological and Methodological Positions

The research will be conducted within a naturalistic/constructivist paradigm. This reflects a stance of ontological relativism where there is no single reality but a series of mentally constructed realities. Each reality is based in the specifics of the moment and the related experiences and are dependent on their form and content on the individual or group constructing that reality. The differing constructions are not more or less true but are more or less sophisticated/informed and are subjective and open to change over time (Lincoln and Guba 1985, Erlandson, Harris et al 1993, Guba and Lincoln 2005). This reflects academic discourse and, specifically, in the context of family governance, the multi-theoretical perspective that enables multiple world-views to emerge through alternative conceptualisation. As noted above, for example, the governance literature discusses the concept of altruism from a number of perspectives and differing conceptualisations emerge providing insights into family imperatives, behaviours, and motivations. In the agency literature, altruism is viewed negatively and is seen as a potential agency cost (Schultze, Lubatkin et al. 2001, Lubatkin, Schulze et al. 2005, Lubatkin, Durand et al. 2007). In the stewardship and socioemotional wealth literature, however, altruism is conceptualised in a more positive light and is the foundation of good family relationships, a source of competitive advantage or a major benefit arising from family control (Davis, Schoorman et al. 1997, Berrone, Cruz et al. 2012). On the basis of the literature, there is no single explanation of the role of altruism in family companies and the conceptualisations represented are compelling, tell different stories, come to differing conclusions and, in context, appear to be equally valid. The same behaviours, actions or events, therefore, may give rise to differing constructions depending on the standpoint of the observer and their position in time and space.

The naturalistic paradigm is based on five axioms (Yin 1987, Erlandson, Harris et al 1993, Guba and Lincoln 2005):

a) realities are multiple and not single;
b) knower and known are interactive and inseparable and are not independent;
c) only idiographic statements are possible;
d) as entities are in a state of mutual simultaneous shaping, cause and effect can't be distinguished; and
e) inquiry is value bound and not value free.

Multiple realities are unstable, context and time bound and predictability and control are unlikely outcomes of inquiry. The purpose of inquiry is to develop an ideographic body of knowledge, 'thick descriptions' leading to a deeper understanding of a particular social phenomena that may allow the formation of 'working hypotheses' in relation to each particular case (Lincoln and Guba 1985, Erlandson, Harris et al 1993).

The case study method adopted for this inquiry enables the uniqueness of each company's position to be explored. The 'working hypotheses' arising from the case studies are presented in chapter 7 as discussion points to be explored or tested in alternative contexts. Lincoln and Guba (1985) argue that the ability to consider whether working hypotheses in context A can be considered in context B is empirical and is a direct function of the similarities between the two contexts. The process by which working hypotheses are derived and the limitations of those hypotheses discussed within this methodological position is consistent with Eisenhardt's (1989) work on theory building from case studies. The focus on the development of an ideographic body of knowledge reflects Eisenhardt's concern with the iterative, reflective process of framework construction and data fit, the examination of the 'why' underpinning relationships through the analysis of qualitative data and the need to address the issue of replication. Further, Eisenhardt refers to the potential narrowness of the emerging theories as the ideographic body of knowledge is derived from specific phenomena. The 'working hypotheses' derived from the cases will provide a description of the particular circumstances of each case study company, which may inform behaviours, attitudes, and attributes in similar circumstances. The application of the working hypotheses, however, must be dealt with tentatively (Lincoln and Guba 1985; Erlandson, Harris et al 1993; Guba and Lincoln 2005) and they are presented as discussion points for future research in order to rethink theoretical perspectives.

Point b), which refers to the knower and known being interactive and not independent, reflects the epistemological position of the naturalistic/constructivist paradigm. Epistemologically, the researcher and the object or the respondent of investigation are interactively linked and findings emerge from the investigation as the research proceeds through the development of a shared constructed reality.

The following model of the development of knowledge has been proposed:

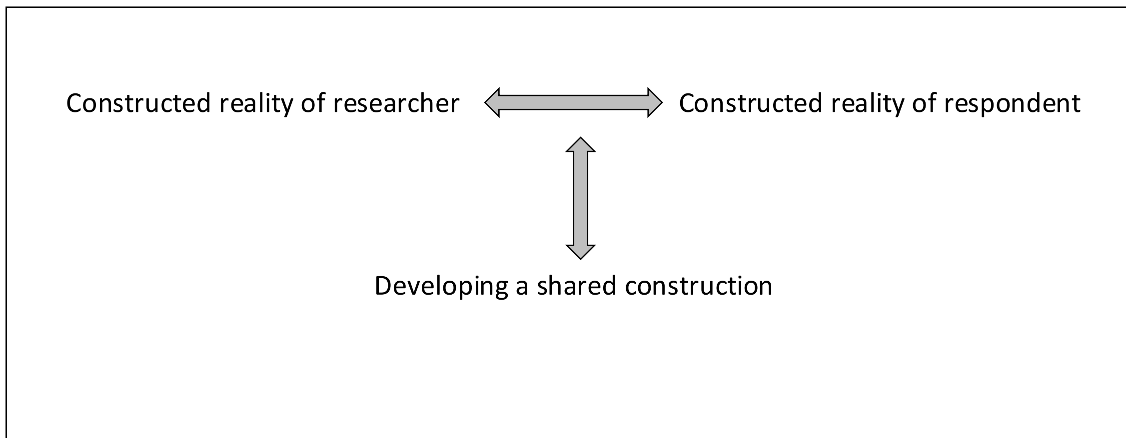

Figure 2: Model of the development of knowledge (Erlandson, Harris et al 1993)

This is an iterative process as case study data is collected and analysed.

Guba and Lincoln (2005) reference to the researcher as a 'passionate participant' locates studies in this paradigm in a subjectivist/grounded theoretical framework. Guba and Lincoln note that the theory of truth conforming to this ontological position is consensus theory, which asserts that observation sentences are those that are reinforced as such by a community and the recognition of the external constraints that limit what can be agreed.

The nature and form of the consensus is emphasised in the criteria set for trustworthiness: credibility; transferability; dependability; and confirmability (Lincoln and Guba 1985, Lincoln and Guba 1986, Erlandson, Harris et al 1993, Guba and Lincoln 2005). Credibility reflects the relationship between the data and the phenomena the data reports. The focus is on the compatibility between the constructed realities in the mind of the respondents and the realities that are attributed to them. The essence is on the convergence of realities across a group to a point where they diverge. Lincoln and Guba (1985) highlight six 'strategies' underpinning this process: prolonged engagement; persistent observation; triangulation; referential adequacy materials; peer debriefings; and member checks. The six strategies are

referred to below with the exception of referential adequacy materials, which is addressed in the Data Sources section.

4.2.1 Prolonged Engagement and persistent observation

Contact with the three case study companies began in 2017 and persisted through 2018, 2019 and 2020. The schedule of interviews is set out in Table 3 below. The case study companies have been identified as A, B or C and the 1, 2, 3, 4, 5 and 6 identifies the respondent from the family/company. The dates reflect the formal recorded sessions but exclude preliminary meetings and discussions where family members were presented with the objectives of the inquiry. In the case of certain key respondents, more than one interview was held to capture changes in attitudes and opinions over time. This reflected changes in the companies. In the case of Company A, a new Family Charter was being introduced, in Company B the company's business changed from service delivery to investment management, and in Company C, the retirement of a long-serving family MD led to the appointment of a non-family MD and the employment of a new family member. The interviews were carried out as follows:

Company/Respondent	Date of Interview
Company A	
Company A:1	19/09/17
Company A:1	27/04/18
Company A:1	18/07/19
Company A:2	27/04/18
Company A:2	18/07/19
Company A:3	27/04/18
Company A:4	12/08/20
Company A:5	28/09/20
Company B	
Company B:1	22/11/17
Company B:2	20/12/17
Company B:2	17/08/20
Company B:3	03/09/20
Company C	
Company C:1	16/03/18
Company C:1	01/04/19
Company C:2	26/03/18
Company C:3	18/04/18
Company C:4	15/05/19
Company C:5	12/08/20
Company C:6	02/09/20

Table 3: Schedule of Interviews

4.2.2 Member Checks

The member check imperative was reflected through the interview process. The interview questions and data increasingly reflected the developing understanding and interpretations of the researcher. They provided an opportunity for the researcher to share his construction of facts, understanding and viewpoints provided through the responses of the other respondents. By this means a shared understanding of an event or an activity was developed. In the case of Company A, for example, one part of an interview had three respondents in the room at the same time discussing the impact of the recently adopted Charter. At times, the interview became a conversation between the three family members (they were drawn from two generations and two different family branches) as they sought to differentiate, reinforce and ultimately find consensus on the impact of the changes on the family and the company at that point in time.

The interview agenda, therefore, was not fixed but emerged in relation to each company and each type of respondent and was significantly informed by the previous respondent interviewed.

4.2.3 Triangulation

This process also addressed the imperative stated regarding triangulation of data and data collection methods (Erlandson, Harris et al 1993; Guba and Lincoln 2005). The sources of data are set out in full below. The sources included interviews, data held on public databases, company artefacts, press reports, websites and data gathered via observation on company premises. These various sources and methods both initiated questions and also provided verification of matters raised through the interview process. As noted, the sources will be discussed in full below and respond to the ‘referential adequacy’ point noted above.

4.2.4 Peer Debriefings

Peer debriefings is also referred to. These took place through the PhD supervision process. The researcher was encouraged from an early stage of the data collection process to analyse data and this framed the discussion at a number of supervision sessions. These debriefings had three main outcomes:

a) they informed the direction of subsequent interviews;
b) they highlighted the need for triangulation; and
c) in the context of a project with an emergent design, it allowed the focus of this study to emerge. This was an issue. As Guba and Lincoln (2005) have noted: "*There is the matter at arriving at a focus – what, finally, shall be taken as most salient to study in depth, since one cannot study everything*" (p.210). At different times during the course of the inquiry, the focus shifted between the topics of strategic decision making, consensus, conflict and power. The focus eventually settled on the issue of power and influence, as this, in the opinion of the researcher, best brought into focus the issue of family decision making.

4.2.5 Transferability, dependability and confirmability

The other three matters relating to trustworthiness concerned transferability, dependability; and confirmability. Transferability has been dealt with above. Dependability is conceived in terms of consistency (Lincoln and Guba 1985, Lincoln 1986, Erlandson, Harris et al 1993) and is derived from the records maintained to document the process of inquiry. In the context of a project such as this, this matter is addressed through the supervision process in addition to the formal record keeping inherent in the data collection process. The final issue is that of confirmability. This concerns the potential for an external audit to examine the interpretations presented by the researcher in the context of the data collected and the logic used to assemble those interpretations. The purpose of this is to assess the extent to which the interpretations reflect the data and to what extent they reflect the bias of the researcher. Again, in the context of this inquiry, the PhD supervision process involved the ongoing challenge to the origin and strength of arguments presented.

4.2.6 Authenticity

The issue of 'authenticity' must also be addressed in a naturalistic/constructivist inquiry (Lincoln and Guba 1985, Erlandson, Harris et al. 1993). This has five aspects: fairness; ontological authenticity; educative authenticity; educational authenticity; and tactical authenticity. The origin of these criteria lies in the acceptance of multiple realities and the process by which individual realities are given status as part of the research process. The latter four criteria are, in the opinion of the researcher, less relevant to an explanatory study and more applicable to one seeking constructions and actions based on a consensus view. Fairness goes to the process by which different constructions are brought into view, the existence of

informed consent, and the use of member checks to ensure respondents perceive the research process to be fair. This implies the development of trusting relationships, openness and transparency in the processes. In this respect, the open discussions entered into prior to any data being collected, the provision of an information sheet, the positive action taken in one case to exclude data from the analysis process and the relationships built over a period of time have sought to ensure open discussion with the respondents.

From the above discussion, it can be seen that the methodology is both hermeneutical and dialectical. The constructions are created through the ongoing exchange between the researcher and the respondent, with the varying constructions being interpreted using conventional hermeneutical techniques. These interpretations are contrasted and compared between researcher and respondent through the process of dialectical exchange (Lincoln and Guba 1985, Guba and Lincoln 2005).

The fifth axiom referred to above states that inquiry is value bound and is not value free. Lincoln and Guba (1985) elaborate on this with four statements setting out the way in which this type of inquiry is value bound. These relate to:

a) the impact of the inquirer's values;
b) the choice of paradigm;
c) the choice of substantive theory; and
d) the values inherent in the context.

All four must exhibit congruence if the inquiry is to produce meaningful results. These are reflected in the research design.

4.3 Research Design

The research design is based on the following model adapted from the work of Lincoln and Guba (1985):

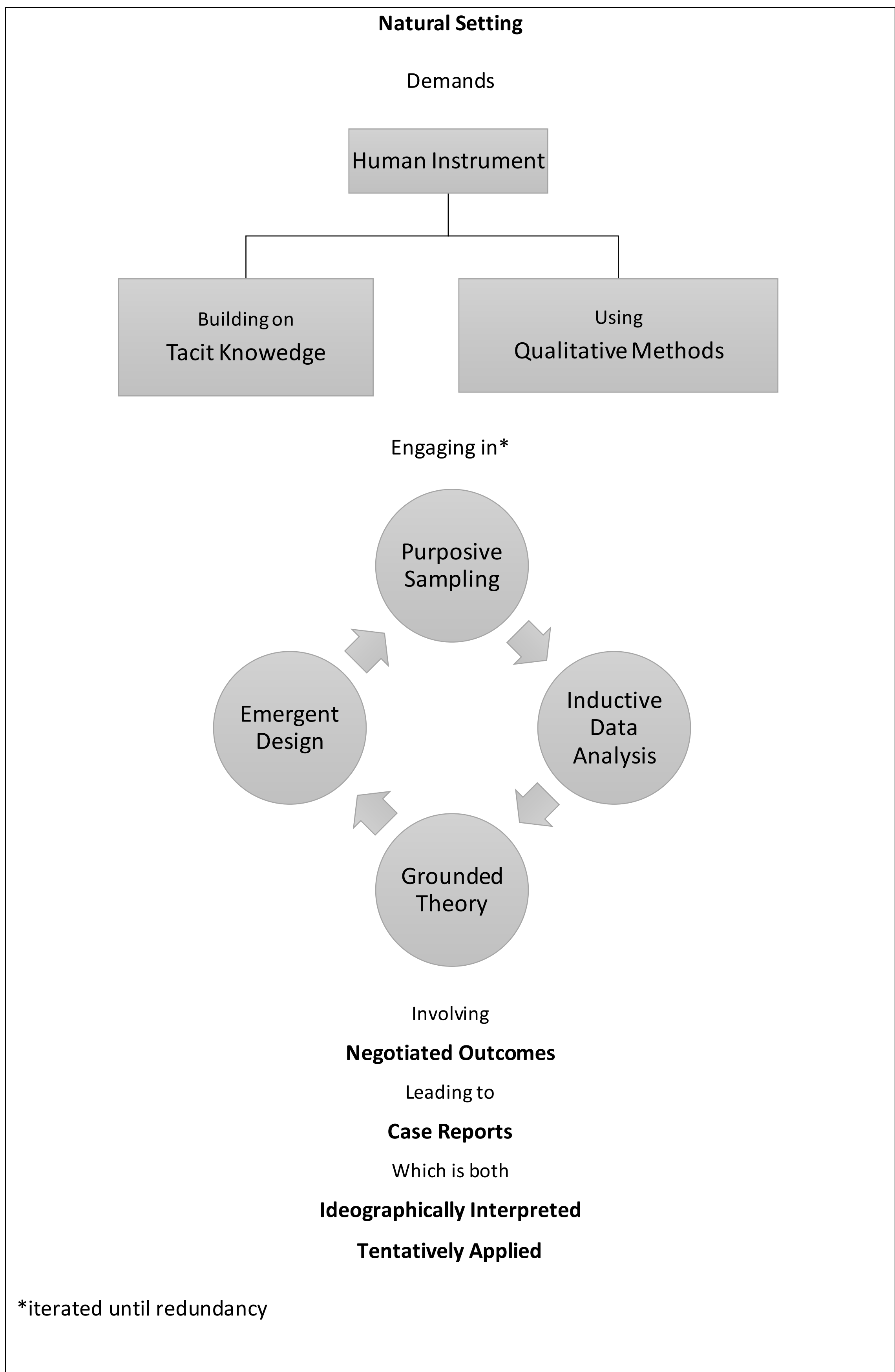

Figure 3: Research Design. Adapted from Lincoln and Guba (1985, p.188)

The natural setting is based on the notion that a constructed reality of specific phenomena must be understood in relation to the context and time in which it exists. This demands a holistic inquiry that seeks not to isolate a number of defined variables but aims to take account all matters and influences.

Guba and Lincoln argue that the following characteristics uniquely qualify humans as the instrument of choice for naturalistic inquiry: responsiveness; adaptability; holistic emphasis; knowledge base expansion; processual immediacy; opportunities for clarification and summarisation; and opportunities to explore atypical or idiosyncratic responses. Knowledge base expansion states the ability of the human to operate in propositional and tacit knowledge – that latter being knowledge gained from experience, occupying the realms of the felt and the unconscious self. The model above notes that tacit knowledge also plays a role in framing the area of inquiry and informs the framing of the research questions. Processual immediacy refers to a human's ability to quickly process data, make sense of it, and test it through dialogue immediately.

The use of qualitative methods follows from the human as instrument point, (Guba and Lincoln 2005) noting that the methods underpinning a naturalistic inquiry tend to be extensions of normal human activities: interviewing; observing; reviewing available documentation; and taking account of non-verbal cues.

For the purpose of this inquiry, the case study method was chosen and three companies were selected. In the context of a naturalistic study the case study may be defined as an intrinsic case study (Stake 2005). Here, the case study itself is of interest and is not chosen for its ability to represent other cases or illustrate a particular trait or process. The objective is to generate working hypotheses that reflect the case itself. As noted in the model, these will be based on constructions generated through exchange, which are ideographic in nature and bound by time and context. The potential for transferability, however, may arise.

At the centre of the research design above are four circles setting out an iterative process, which ends with 'redundancy'. The starting point for this researcher of their experience of this model relates the emergent design point. The exploratory nature of the study led to an early position where case study methodology within a naturalistic paradigm was a preferred route. The case study methodology implied the collection of data from a variety of sources with interviews being at the centre of the process. The 'emergent' nature of the inquiry, however, related as much to the focus of the inquiry as to the method of data collection. The iterative

process of literature review, documentary review, interview, observation, and review of artefacts generated a huge quantity of data relating to governance and the relationships between the family and the company. This created opportunities to explore several areas of academic inquiry. Narrowing this down to issues of power and influence reflected a process of evaluation and synthesis, which became part of the process of inquiry.

The design method refers, too, to grounded theory. For Guba and Lincoln (1985), grounded theory is a "*necessary consequence of the naturalistic paradigm that posits multiple realities and make transferability dependent upon local contextual factors"* (pp.204-205). They further make the point that grounded theory is essential to the notion of emergent design. This is supported by Locke (2011):

> *Grounded theory's distinctive features… are its commitment to research and discovery through direct contact with the social world coupled with a rejection of a priori theorizing… when this eschewal of pre-exiting theories is combined with an emphasis on research and discovery, it results in a conception of knowledge as emergent. Knowledge is composed by researchers in the context of investigation practices that afford them intimate contact with the subjects and phenomena under study* (p.34).

The other two areas highlighted in the model are purposive sampling and data analysis.

4.4 Purposive Sampling

This term reflects a feature of naturalistic/constructivist sampling, the purpose of which is to maximise information rather than to support generalisation. It is, therefore, based on information rather than statistics and does not seek to be representative of a population. The case study companies reflected three positions: widely diffused inter-generational ownership across one family; concentrated ownership within one family; and diffused ownership across two separate families.

The companies selected are required to reflect as much variation as possible as the purpose is to detail the specifics that give each case study their uniqueness. Guba and Lincoln (1985) suggest a process in which sample selection is itself an emergent process as the notion of maximum variation can only be understood once the nature of a particular unit subject to inquiry has been investigated. This suggests a 'moving on' from one different unit to another until a point of redundancy has been reached. For the purpose of this inquiry, sampling was

purposive, but it was not sequential as variation was based on ownership profile. The boundaries attaching to a PhD study also eliminated the notion of selection to the point of redundancy and the study has been limited to three companies.

4.5 Identification of Participating Companies

In the absence of a single family company definition it is necessary for the researcher to set out the company selection criteria adopted. For the purposes of this project, therefore, the company was required to meet five key criteria. The first four are well-stated elements in widely accepted family firm definitions. First, the existence of a dominant family group with majority control; secondly, the perception of the kinship group of the firm as a family firm; third, family involvement in management or governance; and finally, inter-generational succession. These elements are consistent with existing and alternative definitions (Westhead 1997, Westhead, Cowling et al. 2001, Westhead, Howorth et al. 2002). A fifth element added by this researcher relates to the absence of any significant non-family shareholders. The purpose of this is to exclude from decision making the concerns of non-family ownership. This inquiry seeks to explore governance mechanisms adopted by the family to meet the needs of the family, free from the influence and demands of non-family equity investors. In the context of multi- generation family companies, it is recognised that this requirement significantly restricts the population from which a sample may be drawn.

The inquiry, however, must capture some of the heterogeneous nature of wholly owned multi-generation family owned companies. The involvement of these three companies provides an opportunity to explore governance and power and influence issues in multi-generation family companies where:

a) shareholding is both diffused and concentrated;
b) power and influence, as measured through the proportion of shares held by an individual shareholder, is both diffused and concentrated;
c) both single and multiple families are involved in ownership; and
d) the degree of family involvement in management and the board is different.

Specifically, the selected case study companies reflect the following:

a) Company A has family members who are seven generations from the founder. The family members active in the company are drawn from the fifth and sixth generation.

There are currently five main branches of the core family, who mainly trace their inheritance back to the second-generation siblings. One branch has the status of being a family branch but relates back several generations to an executive who was allowed to join the family shareholders. The descendants, however, are defined as being core family members. There are a number of minor branches, who hold approximately 20% of the issued share capital. The only non-family members holding shares are current employees who are required to transfer shares when employment terminates. The percentage of shares held by such individuals is insignificant, they are excluded from the family governance processes and have restricted shareholder rights. Shareholding is diffused across the family branches and within the branches and no one individual, or family branch, has a controlling shareholding. A group structure exists and the company operates in a number of different markets. In 2005 the company sold its major commodity business and since then has moved increasingly from commodity trading to manufacturing.

b) Company B is a single-family company. It is of interest because although ownership was diffused over the second and third generations the family concentrated ownership into the hands of a single fourth generation family member. The current family members are the fourth generation Chair and two fifth generation shareholders, who are the sons of the fourth generation Chair. All the issued shares are either held personally by the fifth generation or held in trusts controlled by the fourth generation family member. The beneficiaries of these trusts are the fourth and fifth generation family members themselves or pension fund members. During the period of this study the company sold its main operating business but retained sales proceeds in the company, which now holds a range of property and financial investments. The company has been included in this study as it challenges the assumption underlying much family company research that ownership will inevitably be diffused as generation succession occurs. The fourth generation shareholder was placed effectively in the same position as a first generation founder by the actions of the third generation. The case study provides an opportunity to examine the governance structures created where power reverts back to a single shareholder after a period of diffusion. In particular, it provides an opportunity to examine the extent to which the actions of the fourth generation owner reflected those of a first generation founder, given the absolute authority invested in him. The case study also allows the impact of the father/son relationship to be examined.

c) Company C is a multi-family company with one family holding approximately 52% of the shares and the other family holding 48%. Shareholding is diffused and the largest single shareholder holds a little over 15% of the share capital. The minority shareholding family have traditionally managed the company and the majority shareholders have been involved in supervisory but not operational management. A fifth generation managing family member has recently stepped down as MD after a number of decades and a non-family MD has been appointed. This family member is now Chair. The only other family member employed in the company is a sixth generation family member of the managing family who returned to the UK to join the company after developing a successful career overseas. He is not a shareholder but is part of the senior management team and joined the board in 2019. He is the youngest family representative involved in the company across both families and it is expected that he will take on the leadership of the company at a point in the future. Research into multi-family companies is limited and this case study provides an opportunity to examine how the two families have established governance structures to deal with the complexity arising from the ownership profile.

Sampling was purposive, therefore, and not random. One characteristic they share is the absence of significant non-family shareholders but in all other respects they are very different. They were chosen because of the diversity they reflect and thus the potential they have to reveal different issues, circumstances and structures which could better inform this inquiry. These companies are not taken, however, to represent a class or category of fifth or more generational family companies. Rather they were chosen because they were different to each other and provided an opportunity to look at three very different types of family shareholder groups who have maintained de jure control over the company.

4.6 Data Sources

The case study inquiry method provides an opportunity for data to be collected from a variety of sources and addresses the 'referential adequacy material' strategy referred to above (Guba and Lincoln 1985). Additionally, in constructing an understanding of each case study it is necessary to triangulate the data. The researcher, therefore, collected data through the following four main processes:

a) Publicly available regulatory data was collected from the Companies House website. In particular, details were extracted from the Annual Return, the annual financial

statements and other statutory returns filed in accordance with regulatory requirements. This data provided current and historic information relating to the original and amended Articles of Association, changes in shareholder rights, the composition of the board and changes thereto, the disposition of shares, the existence of family trusts, major share transactions and detailed financial data. The information is submitted within a regulatory framework that contains penalties for filing false data. The researcher regards this information as both reliable and authoritative. Additionally, financial data is subject to external scrutiny through the audit process. The Company House-sourced data was referred to continually throughout the data collection process and supported the inquiry process in four ways: first, data was extracted from the documentary evidence prior to any interview being undertaken. The next chapter of this thesis provides a synthesis of the data extracted in the form of three company vignettes. The data was also used to formulate the question schedule used during the course of the first interview with each company. Secondly, the data allowed what has been noted above as 'processual immediacy' to take place during the course of the interview to enable challenge, clarification or confirmation to occur in real time rather than as a follow-up to the interview. Thirdly, post interview, it allowed interview data to be triangulated with recorded data. Finally, it provided an opportunity to monitor changes during the period of the inquiry. Engagement with the Companies House data was therefore an iterative process. Relevant data was extracted before any interviews were conducted and a profile of each company was created in relation to its financial position, the shareholder structure, shareholder rights as set out in the Articles of Association, particularly in relation to the sale/transfer of shares, and the contractual governance arrangements in place. This included the composition of the board. The documentation contained on the site was particularly reviewed to identify significant historic changes to arrangements such as the adoption of new Articles of Association, changes to board composition and shareholder profile.

b) Company generated data in hardcopy and digital form was collected/reviewed. This took a number of forms. Company websites were a source of data, particularly in relation to corporate structure and operations, values and mission, CSR initiatives and the nature and composition of senior management. Furthermore, periodically posted news stories on the website were useful. Company A, for example, reported on its next generation project on its website and its apprenticeship scheme, which included the

employment of one of the sixth generation family members. On inquiry, this turned out to be the only family member, apart from the Chair, to be an employee of the company. Hardcopy data included a family history and the Family Charter in the case of Company A. With the exception of the Family Charter, much of the documentary data provided contextual information relevant to an understanding of historic structural changes made and care was taken to ensure data extracted was triangulated with other sources. Certain artefacts proved to be particularly useful. A discussion of family conflict across different branches of the family in Company A, for example, was traced to the unequal disposition of shares in the company to second-generation siblings following the death of the founder. The reason this came about was explained fully in the published family history and supported the evidence obtained through the interview process, the Articles of Association and shareholder transfers as recorded on the Companies House site.

c) Web-based search sites were interrogated to find press and other third-party reports of the companies and of the individuals interviewed. This was done as part of the selection process and as an ongoing process during the data and analysis phase of the project. In reality, this process generated little relevant data, the most significant being one press report containing an extensive interview with the family leader in Company C who was interviewed when he stepped down as MD and assumed the role of Chair.

d) Semi-structured interviews were conducted with the individual family and non-family members. This process generated the largest quantity of data. The interviews were conducted mainly in face-to-face interviews, although in some cases, the interview was conducted over the telephone or via an email exchange. The face-to-face interviews took place either in the homes of the interviewees or on company premises. Most interviews were one-to-one but in the case of Company A an interview was held with three respondents present for some of the time, as individuals joined and left the conversation, and a second interview was held with two family members present. Most interviewees were interviewed only once but some were interviewed a second or third time when additional information was required. The full protocols surrounding the conduct of the interviews are dealt with below in the ethics section of this chapter (section 4.9). In general, an outline interview schedule was prepared prior to the interview identifying the major issues to be covered in the interview. The interview itself was recorded, transcribed and shared with the interviewee for review/correction. These processes had been set out in an information sheet sent to

each participant prior to the interview taking place. In one case the researcher was asked not to use specific data collected during the interview subsequent to the interview. In this case the transcript was amended and then shared with the respondent to agree the data that could be included in the analysis. Typically, the interviews lasted between 30-60 minutes. Inevitably, much of the data collected contained stories of events involving people and organisations. Prior to the data being uploaded to the analysis software, the data was cleansed to remove the name of a company, any business connections that could be identified, the names of the interviewees and other family members, employees or former employees. The coding system identified above was adopted to anonymise the company and the individual participants. The full audio recordings were also uploaded into the relevant analytical platform and the files on the recording devices were deleted. All material was stored within the university systems. The process of the interview reflected the emergent design of the inquiry. The first interview was conducted with the family 'lead'. This was a senior member of the family. In the case of Company A this was the fourth generation former Chair, for Company B the fourth generation current Chair and for Company C the fifth generation former MD and now Chair. The preparation for these interviews was based on the main themes of the inquiry in the context of the preliminary analysis work done. In all three cases, this preliminary interview was conducted with existing knowledge of shareholding structures, Article provisions, board composition, family board representation and a notion of historic changes. The prime purpose of the preliminary interview was not to gather basic facts but to understand context, motivations, intentions and the purpose behind actions. This allowed for a more focused, informed discussion and exchange. The tone of the interviews quickly became more conversational. The nature of each case study was set by this first interview in a number of ways. First, subsequent interviews were framed based on the data collected. Topics were adopted from the first interview and then explored in subsequent interviews. This not only allowed triangulation of data but also allowed a more sophisticated understanding to develop of motives and impact for actions. It allowed, too, for testing the constructed reality of one respondent with that of another. This identified both divergence and convergence. The first respondent invariably recommended other family and non-family members to interview and acted as gatekeeper. The selection of interview participants is discussed in detail below.

e) The final data source was observational data. This was limited and related mainly to the physical settings within which the companies operated. In the case of Companies A and C the majority of interviews took place on company premises. This provided an opportunity to see something of the representation of the family on the company premises and the casual interaction of family members with one another. In both companies, the presentation of the company as a family firm was immediately made known to any visitor through statements on the walls, pictures of past family members and, in the case of Company C, the maintenance of two rooms which had served as the main office of the family leader since the foundation of the company. These were rooms in the house occupied by the founder. In terms of style and fittings, the rooms were firmly located in the 19th century, and were full of family portraits and other historical pieces. Visitors, particularly customers, were purposely taken to these rooms. The offices had been preserved despite the complete renovation/rebuild of the house and site.

4.7 Identification of Individual Participants

In addition to purposely choosing the type of company to include in the study, consideration had to be given to the individuals who would be approached to contribute. At the outset of the inquiry, the conditions set for this were that:

a) Multiple family voices should be heard – in the case of Company C this meant that representatives of both sides of the family should be included in the project;
b) Respondents should include those involved and not involved in operational and supervisory management. This was to ensure that those involved in the governance mechanisms should contribute directly but a shareholder perspective could also be provided;
c) In all cases family members from different generations should be included; and
d) Where relevant, non-family voices should be included where such individuals played a significant role in management or governance.

The following fourteen individuals were interviewed:

Company	Family Member	Generation	Position	Label used for the purposes of this study
Company A	Yes	Fourth	Chair (Retired)	Company A: 1
Company A	Yes	Fifth (Branch A)	CEO (Retired)	Company A:2
Company A	Yes	Fifth (Branch B)	Chair (Current)	Company A:3
Company A	Yes	Fifth (Branch C)	Shareholder	Company A:4
Company A	Yes	Sixth	Employee	Company A:5
Company B	Yes	Fourth	Chair/MD (Current)	Company B:1
Company B	Yes	Fifth	MD (Current)	Company B:2
Company B	No	N/A	Consultant	Company B:3
Company C	Yes	Fifth	Chair	Company C:1
Company C	Yes	Sixth	Employee (non-shareholder)	Company C:2
Company C	No	N/A	Family appointed NED (non-shareholder/related by marriage)	Company C:3
Company C	No	N/A	MD (non-family)	Company C:4
Company C	Yes	Fifth	Shareholder	Company C:5
Company C	Yes	Fifth	Shareholder	Company C:6

Table 4: Contributing Respondents

As noted above, the individuals were not identified at the start of the project. In each case, the initial interview was conducted with those the researcher identified as the family leader: Company A:1, Company B:1 and Company C:1. Further interviews were then identified based on the interview data collected and access consented to. In the case of Company C, for example, only two family members were involved in the operations of the company, Company C:1 and Company C:2, and both were interviewed. The individual identified as Company C:3 was the son-in-law of a shareholder from the investment family brought onto the board as one of two NEDs appointed by that family. This individual's background was in financial services regulation and he reported that it was felt by the family that he could provide both an outsider and insider view of the governance arrangements in the company. Additionally, the first interview indicated that the non-family MD had been instrumental in developing the new strategy for the company and his inclusion provided insights into the relationship between the two families and the company. An external perspective was provide by two family shareholders not involved in the management or governance of the company.

In the case of Company A, there were only two family members involved in the operations of the company and one, a sixth generation family member, had only just joined the firm as an apprentice and was not involved in management. Both family members were interviewed. At the time contact was first made with this company, however, three family members interviewed (A:1, A:2 and A:3) were leading on the construction and adoption of the company's first Family Charter. This, inter alia, created a series of structures and protocols dealing with a variety of family governance issues. Interviews were conducted both before and after the adoption of the Charter to obtain reflections on the operation of the new governance arrangements. Both the sixth generation employee and a fifth generation shareholder were interviewed after the changes took place and provided reflections on the developing governance environment from their perspective.

In the case of Company B, the sale of the trading operations led to the transfer of employment of a number of staff and the termination of employment for the subsidiary company non-family directors. The two family members were left managing and directing the company, which continues as a property management/investment vehicle. A long term non-family consultant, who has worked with the company for over 35 years in a shadow director capacity, was interviewed in addition to the two family members. This respondent was able to provide insights into both the different governance structures adopted by the company at different times, the changing involvement of the family in company management and leadership and the manner in which the family exercised power and influence over company strategy.

4.8 Data Analysis

Data was analysed in two main ways:

a) In the case of the documentary evidence – documents filed with Companies House and company artefacts – factual data was primarily extracted to contribute to an understanding of the company, highlight matters for potential discussion with respondents and, through triangulation, provide evidence for statements made by respondents post interview. Weight was given to the source of the evidence, with the documents extracted from the Companies House website being given greater credibility because of the authoritative nature. As noted, the detailed company vignettes in chapter 5, which follows, were constructed from such data.

b) The interviews were digitally recorded and transcribed in a denaturalised context. Verbatim depictions of speech was recorded as the researcher's interest was in meaning and perceptions represented in the interview (Oliver, Serovich et al. 2005). The interview texts were initially analysed by reference to three main elements;

   a. the structures and mechanisms through which power and influence is exercised as identified in the power and governance literature. Five areas are highlighted; ownership, management, leadership, the board and relational governance mechanisms.
   b. the FIBER dimensions proposed by Berrone et al (2012) referred to in chapter 3;
   c. and the four dimensions of family /company relationships set out below.

Through an iterative process of analysis and synthesis a number of themes emerged. These form the structure for discussion in chapter 6. The mapping process by which the themes emerged are set out in appendix 2.

As noted in chapter 3 above, the case studies provided an opportunity to examine the applicability of the family power model in multi-generation family firms. Further, the analysis of the case study data using the elements making up the FIBER dimensions provided an opportunity to consider the presence and strength of the SEW dimensions in the different case study companies and the appropriateness of the conception of family control and influence set out in the scales. The discussion in chapter 3 questioned whether the conception of power and influence set out in the FIBER scale fully captures the means by which a family may retain power and influence over company decision making. As noted the FIBER model consists of five dimensions, they being as follows:

FIBER dimensions
Family control and influence
Renewal of family bonds through dynastic succession
Binding social ties
Identification of family members with the firm
Emotional attachment of family members

Table 5: Socioemotional Wealth FIBER Dimensions

The five dimensions have been proposed by Berrone, Cruz et al (2012) to enable the researchers to measure the nature and form of socioemotional wealth in individual companies.

For the purpose of this inquiry, the FIBER elements provided a point of reference for the analysis of the data collected through the case study process for two reasons. First, the dimensions address the main factors impacting upon the understanding of power and influence of the family, such as family bonds, trans-generational succession and relationships in addition to the ownership and management. Secondly, however, given the nature of the discussion in the literature review regarding the nature of socioemotional wealth, there remains a question whether the five dimensions as defined by Berrone, Cruz et al (2012) fully reflect the nature of power and influence of family shareholders with diffused shareholdings. In particular, the very conception of 'Family control and influence', as set out in the scale, has been questioned in chapter 3. This has been addressed directly in the analysis of the case study data. Further, an issue not addressed by the FIBER framework but also noted in chapter 3 relates to the presentation of the family in the literature. An assumption is made that the family represents a single entity with a common head and heart. The inquiry provides an opportunity to take a more nuanced approach to the attitudes and expectations of the family and addresses in greater detail the nature of family relationships.

The power literature discussed above noted the interplay of structure and relationships and highlighted the nature of power exercised within the organisation. Family relationships are fundamental to the family company literature and family owned and managed companies are held to be unique organisations because of the interplay of the family, the business and ownership (Tagiuri and Davis 1996).

Building on Tagiuri and Davis' three circle model the relationships found in a company context were categorised into four dimensions as follows:

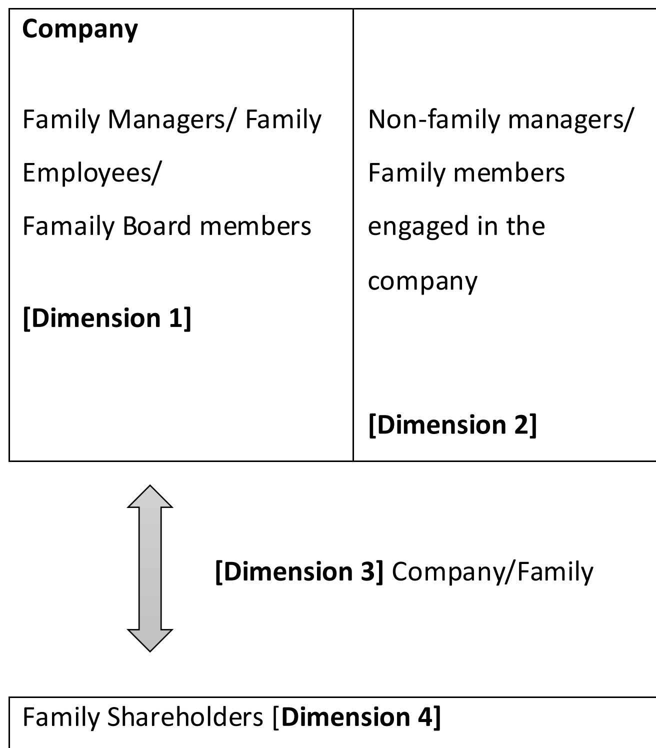

Figure 4: Four Relational Dimensions

Dimension 1 is the relationship between family members intra-company. This is not contempated in the literature. Different family members from different generations may perform different functions within the company depending on whether they are employees, managers, executive management, executive board members or non-executive board members. It cannot be assumed that all engaged family members are equal in terms of the power and influence they exercise in the company.

Dimension 2 is the relationship between the family and non-family members within the company. Non-family members may be employees, managers, executive management, executive board members and non-executive directors. The relationship may give rise to agency issues based on the separation of ownership and control. Alternatively, it may reflect the preference given to family members in a company over non-family employees. It is particularly relevant to the examination of strategy formulation and decision-making.

Dimension 3 is the relationship between family shareholders and the company. This relationship focuses on the ability of the family as a single unit or as individuals to exercise

voice, and therefore power and influence, in the company. The governance structures or mechanisms enabling the exercise of voice are of particular interest.

Dimension 4 is the relationship between family shareholders as shareholders, and reflects intra-family relationships. This is not an area that has attracted significant examination. The family is most commonly regarded as a single entity. The lifecycle literature describing the move from engaged founder to the investing family lacks the necessary complexity to explain the relationships inside a family shareholder group. It is within this dimension that issues of family conflict and family leadership may manifest themselves giving rise to different power relationships. Horizontal agency issues may arise.

The inquiry addresses all four relational dimensions through the analysis of the case study data.

The iterative analysis led, through a process of synthesis, to an amalgamation of the FIBER and relational dimensions referred to above, plus additional issues that emerged, to the following themes, which form the basis of the analysis in Chapter 6:

a) Ownership
b) Management
c) The Board
d) Decision Making
e) Relationships
    a. Intra family
    b. Family/Company
    c. Non-family stakeholders
f) Leadership.

As previously noted, the mapping of these themes is set out in appendix 2.

The analysis process was aided by the use of MAXQDA software. All interview transcripts and digital audio files were uploaded into this system, which allowed the data to be coded and for coded data to be summarised across respondents and companies. The system allowed data to be represented and reflected in a number of ways to assist reflection

The discussion above has referred to six strategies contributing to the trustworthiness of the data, three of which are prolonged engagement, member checks and peer debriefings. It

should be stressed that the analysis of the interview data was an iterative process and began after the very first interview. The continuous analysis:

a) provided an opportunity for member checks as the content of previous interviews fed into the discussion of subsequent interviews and alternative responses to situations, and in doing so facilitated both triangulation and differentiation; and
b) the writing up of the ongoing analysis and the discussion of this work through the PhD supervision process enabled the researcher to engage early on in the process of sense making. In particular, the questioning and challenge to the researcher's constructions and perceptions by the supervision team led to reflection which then fed into subsequent engagement with the respondents.

4.9 Ethical Considerations

This inquiry involved human participants and required consent to be obtained. The respondents were regarded as privileged individuals within companies and families, being shareholders, managers or board members/senior consultants. They were not regarded as being vulnerable adults.

The process of acquiring consent was in accordance with the ethical framework agreed as part of the PhD process. Prior to any data collection being undertaken contact was made with the potential participant to explain the nature of the project and the process. This usually happened initially via email and was followed up with either a telephone conversation or a face-to-face meeting. This was further followed up with a project information sheet, which set out the terms of engagement. The information sheet was scrutinised as part of the ethical approval process. This included information relating to the nature and scope of the project, the consents required, confidentiality, anonymity, data recording/storage/disposal, the provision of the transcript of any recorded data for review/correction, project feedback and the process for withdrawing consent. The issue of consent, withdrawal and control over the data was important and the researcher attempted to ensure that all participants were aware of the terms of engagement. The information sheet had a consent form attached and this was completed before the interviews took place. All respondents were offered an opportunity to review the transcript provided and amend, clarify or remove data. As noted above, in only one case was a request made for the researcher to remove/disregard specific references from the transcript and the consent form recorded the specific data to be excluded. This amended transcript was shared with the respondent before any analysis work was carried out.

Company data was collected in either hard copy format or, in the case of interviews, were digitally recorded. The data either was stored in the university or on university password protected systems. In the case of the audio files, these were loaded onto the university system and then deleted from the recording devices. The files and subsequent transcripts were stored within the MAXQDA system, the software for which was downloaded into the university system and the back-up was stored in the researcher's permanent university drive.

4.10 Conclusion

The use of the case study method in the context of a naturalistic/constructivist paradigm has sought to provide an opportunity for each case study to yield rich data to inform a series of working hypotheses. These working hypotheses are not time, context or value free but aim to provide a conceptualisation that reflects a reality constructed by the researcher through the process of inquiry at that point. The working hypotheses are not held out to be representative generalisations of a class or category of family companies. Rather, they provide insights into the companies examined and those insights may aid understanding and interpretation in companies in a similar context, and in doing so present evidence for emergent theory building.

With respect to this project, the case studies method has been employed to enable different types of fifth generation companies to yield data to enable a nuanced and informed series of responses to the research questions to be formulated. These will not seek to reflect a single model but provide an opportunity to reflect on the context and conditions within which the conceptualisations generated may provide opportunities, through comparison, for greater understandings.

Chapter 5: Company Vignettes

5.1 Introduction

This chapter provides an analysis of specific aspects of the three case study companies. For each company, a brief introduction sets out the history and current operations and data is then presented relating to the company's financial performance, generational involvement, share analysis, the composition of the board and governance arrangements in place. The purpose of this chapter is to provide context for the analysis and discussion to follow in chapters 6 and 7 and elements of this analysis will be brought into each.

The data used for this chapter is mainly drawn from documents in the public domain. In particular, statutory returns and other documents held on the Companies House database have been accessed. Such documents include the Annual Return, the Articles of Association and the annual financial statements. Additional data, particularly that relating to current operations, has been extracted from company websites.

5.2 Company A

This group traces its origins back to 1858 when the founding family member set up an agency to import tea and coffee. Innovation and diversification have been a feature of the group and over time it has been involved in a variety of commercial ventures, including commodity trading, farming, construction, travel agencies, computer software and even the sale and distribution of string vests.

The group currently consists of two divisions, food and agriculture, and operates through eight subsidiary companies. Since the early 2000s, the group has increasingly moved from trading to manufacturing and now has significant interests in food and cattle food production and distribution.

5.2.1 Financial Performance

The five-year financial history of the group is as follows:

Item	2016	2017	2018	2019	2020
	£m	£m	£m	£m	£m
Turnover	299.8	342.8	361.1	361.7	319.7
Pre-tax Profit	16.2	18.0	7.7	10.1	2.7
Net Assets	96.2	110.3	114.9	117.7	117.6
Dividends	1.8	2.4	2.5	2.0	2.0

Table 6: Company A five-year financial summary: 2016-2020

The 2020 Financial Statements reported that the average number of employees was 1,697 in the year to 30 August 2020. The group operates out of 12 sites in the UK.

5.2.2 Generational Involvement

The family adopted a Family Charter in June 2017 to manage the relationship between family members and the company. The Charter is a mechanism designed to align the interests of an extended family now into its seventh generation.

Few members of the family are actively engaged in the affairs of the company. Until 2017, the Chair and CEO were drawn from the fifth generation, but the CEO retired for health reasons and the Company now has a family Chair and two family non-executive directors on the board. Non-family members hold all other board, executive and senior management posts.

In 2018, a member of the sixth generation joined the group under the company's graduate employment scheme. He has no management or governance roles.

5.2.3 Share Analysis

The company has eight classes of authorised/allotted shares: 2007 A Ordinary shares, 2007 B Ordinary shares, 2007 C Ordinary shares, 2007 D Ordinary shares, 2007 E Ordinary shares, 2014 Preferred Ordinary shares, £1 Ordinary shares and £1 Preferred Ordinary Shares.

The number of shares is as follows:

Class (fully paid up)	**Number**
2007 A Ordinary £1 shares	80,000
2007 B Ordinary £1 shares	80,000
2007 C Ordinary £1 shares	80,000
2007 D Ordinary £1 shares	80,000
2007 E Ordinary £1 shares	80,000
Ordinary £1 Shares	1,042,191
2014 Preferred Ordinary £1 Shares	72,601
Preferred Ordinary £1 Shares	346,468
Total £1 Shares	**1,861,260**

Table 7: Company A issued share capital

There are 136 registered shareholders, these being both individuals and trusts or settlements.

Differential rights attach to each class of shares. The Preferred shareholders have no voting rights and although all receive notice of the AGM, only those with more than 500 shares may attend. None has the right to speak. Only ordinary shareholders have the right to vote.

For a number of years, the family has used legal devices linked to share ownership to manage company and family relationships, the driver being the creation of a structure through which the family could communicate with the company with a single voice.

The creation of the 2007 Ordinary shares is the latest mechanism used to achieve consensus between the different branches of the family. The rights and obligations are set out in the Articles of Association. The 2007 Ordinary shares rank pari pasu in all respects amongst themselves but there are restrictions on the voting powers of these shares. On an individual shareholder level, a 2007 Ordinary shareholder has the right to receive notice of the AGM and attend an AGM but does not have the right to speak. Only 18 of the shareholders hold 2007 Ordinary shares.

The voting restrictions represent a significant governance mechanism. The 2007 Ordinary £1 shares are regarded as being five separate blocks of shares (A, B, C, etc.) and a class meeting of each block is required to be held before each AGM. The five blocks represent the main five

family branches. Each block is required to vote on the basis of one vote per share and a resolution is carried on a majority basis. The Articles of Association require the block to nominate a representative who will meet with the representative appointed by each of the other four blocks. At this meeting, the decisions of each block will be reviewed and if there is a majority of the five blocks the resolution shall be carried by the entire issued class of 2007 Ordinary Shares, otherwise they shall be deemed to vote against a resolution. A representative of the five blocks is appointed to attend the AGM and vote in accordance with the majority decision of the entire issued class of the 2007 shares. Effectively, the five blocks have one vote. The 2007 Ordinary shares as a class currently represent 27.7% of the issued share capital. Furthermore, in 2019, 80.9% of the ordinary voting share capital and 77.5% of the overall issued share capital was held by those holding the 2007 shares or their immediate families.

Periodically, a detailed letter setting out the strategic objectives and performance framework based on the position agreed, in essence by the 2007 shareholders, is sent on behalf of the family to the company board. The letter is now issued by the Family Council.

The one vote held by this class of shares can always defeat an extraordinary resolution or is necessary for an extraordinary resolution to be passed. The mechanism requires the main five family branches to come together and agree on company strategy. The creation of the 2007 Shareholder group is the latest development in a number of arrangements that have forced the family to reach consensus. Prior to that, a separate company had been established to exercise such control.

This is made clear in the 2017 Charter.[1]

> *The [X] organisation was set up in 1974 as a way of pulling together the main family shareholders on an equal basis. For over forty years and through two generations it has underpinned the unity of the family and supported the very substantial growth of the business.*

In the context of the family, no one individual shareholder has sufficient shares in their personal possession to dominate decision making at the family level. Shareholding is also widely distributed across branches of the family and the small number of employees, which makes it impossible for any one branch of the family to dominate.

[1] [Company A] Charter 2017 Introduction (p.3).

The Articles of Association contain detailed provisions relating to the transfer of shares. Different provisions apply to the different classes/types of share. In the case of the Preferred Shares, the holder (the Vendor) is required to give the company notice in writing, as a result of which the Company becomes the agent of the Vendor and can, at its discretion, sell or transfer the Preferred Shares to a purchaser appointed by the directors. Provisions exist to force the Vendor to comply with the directors' decision. The value of the transfer is based on a process set out in the Articles whereby a value is set once per year by the Auditors or other experts by reference to statutory tax provisions. Additional provisions exist where the Preferred Shares are held by a non-family director or employee. In this case, the individual will have deemed to serve notice to the company once they cease to be employed by the company. This may apply, too, to shares held by a spouse immediately prior to the cessation of employment.

The effect of the provisions is to remove from the Preferred Shareholder the ability to determine who the shares they hold should be transferred or sold to following the serving of the written notice. The right to transfer/sell freely is re-acquired by the Preferred Shareholder, however, where the company fails to appoint a purchaser within three months or fails to pay the transfer price within three months. However, acting in the best interests of the Company, the directors have absolute discretion to refuse to register the transfer of a Preferred Share to a person they do not approve of.

The power not to register the transfer of an Ordinary Share is similarly vested in the directors of the company. The Articles provide that where the former shareholder disagrees with this decision a general meeting must be called and 75% of the shareholders are required to support the board veto. If such support is not given, a transfer must be registered.

Greater restrictions surround the transfer of the 2007 shares. In the first instance, transfers may only be made to parents, spouses, brothers, sisters, children, grandchildren, stepchildren, step-grandchildren or a family trust. The intention is that the 2007 'blocks' should be maintained based on the direct lineal family relationships (with the exception of step-children and grandchildren). Furthermore, a spouse acquiring shares from a family member may only transfer shares to the person who originally transferred them or their children/step-children. On divorce, a spouse is deemed to have served a transfer notice immediately prior to the decree absolute.

If a 2007 Shareholder does not wish to transfer the shares in this manner they need to give notice to the 'Representatives' – these being a representative of each block of 2007 shares.

The effect of the notice is to vest the Representatives as agents for the shareholder. Such shares will be first offered to a member of the block or, should they fail to purchase the shares, to a member of another block unanimously chosen by the Representatives.

The purpose of all of these provisions is to ensure either the company and/or the dominant family shareholders retains control over the ownership of the shares. Keeping the shares within the family is critical and is reflected in the Charter: *"recent broad family discussions have concurred on our commitment to remain a private family business"*[2]

This is reinforced in one of the Charter's key principles:

> *We are committed to keeping [Company A] in the family for the long-term, for multi-generational collective family ownership and therefore want to pass the benefits and the responsibility of being shareholders through the generations of our family.*[3]

Furthermore, it is stated that, *"although it is our wish that [Company A] remains family-owned, family shareholders may trade their shares in accordance with the provisions of the [Company A] Articles of Association"*.[4]

The Charter also refers to the sale or transfer of shares, and while it principally refers back to the provisions contained in the Articles, it does contemplate alternative exit routes including the buy-back of shares by the company in order to return capital to the shareholder.

5.2.4 The Board of Directors

The Purpose of the 2017 Charter is to set out clearly the role of the family in relation to the company. In the context of the board, the Charter notes: *"[Company A] will be run by the [Company A] Board and input from the family shareholders will be provided via the agreed governance mechanisms and procedures."*[5]

The Charter makes clear that the board's role is to oversee the direction and strategy of the business and requires family members to respect the responsibilities and fiduciary duties of the directors. The board is required to take into account the family's wishes as expressed in a

[2] Ibid Introduction (p.3).
[3] Ibid Key Principles 1 (p.7).
[4] Ibid Key Principles 4 (p.7).

[5] Ibid Key Principles 6 (p.7).

letter periodically written by the family, *"to provide clarity and purpose of what the family shareholders would like from the board*".[6]

There is no expectation that the board will be composed entirely of family members. The family vision and values set out in the Charter are explicit in putting the needs of the business before the needs of individual family members.

> *We understand that the financial success of the business comes first and we support the business to be run by the most capable people and family involvement in [the company] will be on a meritocratic basis, in order to maximise returns.*[7]

Family oversight through direct board involvement is provided for. The Charter provides that the board will contain up to two family non-executive directors. There will always be two if there are no family executive directors. Non-family appointments can be made to represent the family in a non-executive capacity. The role and responsibilities of the family non-executive directors are set out in the Charter. This respects the primary responsibility of the directors to the board but sets out expectations regarding behaviours, attitudes and actions consistent with their family representative role. In particular, the need for communication between the directors and the family governance structures is highlighted and the Charter notes that: "*issues of family and company alignment will be channelled in the first instance via separate discussions with the family non-executive directors and if concerns remain, to include the [Company A] chairman*".[8]

There is a critical relationship between the company board and the Family Council. In the context of board communications, the Charter anticipates regular dialogue between the Company Chair and the Family Council Chair. This is specifically required to support a "*'no surprises' philosophy*".[9]

The CEO, other board members and the family non-executive directors are required to attend the Family Council and are *"invited to update the family shareholder council on the direction and implementation of [A Company's] strategy throughout the year*".[10]

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[6] Ibid Paragraph 7.2.1 (p.11).
[7] Ibid Family Vision and Values (p.6).
[8] Ibid Paragraph 7.3.5 (p.11).
[9] Ibid Paragraph 7.3.1 (p.11).
[10] Ibid Paragraph 7.3.3 (p.11).

The Family Council plays a significant role in the appointment of the board. The board is required to establish a nominations committee for the appointment of the Chair, the CEO and the non-family non-executive directors. In the case of the appointment of the Chair, this will include two family directors and the Family Council Chair, and in the other two cases, at least one family director and the Chair of the Family Council. Family non-executive directors are selected by the Family Council with input from the company Chair.

The family also plays a direct role in setting the remuneration of the board and appraisal. A remuneration committee is composed of a non-executive director, a family non-executive director and a 'skilled family shareholder'. This will determine all board salaries, bonuses and benefits. In the context of appraisals, the company Chair will seek input from the Family Council when appraising all board members, including the family non-executive board members.

Additional board committees highlighted in the Charter include the Audit and Risk Committees. The Charter requires family involvement in both committees. In the case of the former this will include at least one family non-executive director, and in the case of the latter, a family shareholder. Both committees are expected to report periodically to the Family Council.

5.2.5 Family Governance Arrangements

As noted above, the Charter was adopted by the family in June 2017. At this stage there were seventh generation family members and an unexpected need to review governance arrangements following the retirement of the then (family) company CEO for health reasons. The Charter is the product of a consultation process with external advisors and seeks to: "*guide the family ordinary shareholders of [Company A] in organising themselves and to guide their relationship with [the company] over the long-term".*[11]

The Charter is explicit in stating that it has no legal status and does not alter the existing rights of any shareholder but seeks to describe family governance arrangements to enable shareholders to engage with the company and make more informed decisions. The Charter deals with two matters. First, through various means it seeks to provide a framework of

[11] Ibid Paragraph 2.1 (p.4).

attitudes and assumptions within which family members may engage with one another and with the Company. At the heart of this is the idea of unity and consensus.

The Charter therefore is explicitly only for family shareholders, who are expected to sign the Charter as confirmation of their commitment to it. They are signing up to a set of principles and practices designed to create a cohesive group able to "*speak with one voice*".[12]

A vision is stated, as are five values, based on the concepts of Attributes, Aspiration of Belonging, Forward Looking, Integrity, Passion to Succeed and Accountability. Key Principles are set out, including those relating to family roles and family relationships. These statements include concepts of 'meritocracy', 'accountability', 'responsibility', and 'entrepreneurship' in relation to roles, while words such as 'harmony', 'unity', 'inclusive' and 'participate' are used in terms of family relationships. The personal and collective role in preserving the good name of the family is highlighted.

The document reflects the need for the senior members of the family to manage two relationships: that between the family and the company; and that between the family members themselves. One possible reading of the Charter is that this represents an attempt by the senior family members to set out the terms of engagement for the family members. It does this by defining family values and the behavioural expectations of family members. In this sense, it reflects the ways in which the senior members wish to 'manage' the family and define family identity. Signing up to the Charter is an acceptance of those terms of engagement.

Secondly, the Charter sets out those structures put in place to manage the relationship between the company and the family. The starting point for the design of the structures is the acknowledgement that the board would find it difficult to interact with the large group of shareholders. The structure therefore, seeks to provide a mechanism for eliciting the collective will of the family and formalising the communication lines between the family shareholders and the board.

The most significant vehicle is the Family Council. Some of the functions of this body have been noted above. The membership of this Council consists of one representative of each of the five family blocks and one from the remaining group of family shareholders. The representatives of the 2007 shareholder blocks are elected by that block. Those from the non-2007 block will put

[12] Ibid Paragraph 2.1.3 (p.4).

themselves forward for election and a first-past-the-post system applies. Members sit for four years and can be on the Family Council for three terms. A minimum age of 25 has been set for Family Council membership.

The detailed roles and responsibilities of the Family Council are set out in the Charter. A specific section reinforces the idea that the senior family members wish to promote unity and harmony across the different family groups. This requires that the Family Council should normally work on the basis of consensus. If this is not achieved over a particular issue, a 'cooling off' period is specified and majority voting will only apply if, after such a period, consensus cannot be reached.

The Family Council meets quarterly for half a day. It is empowered to delegate work to action groups. One standing action group identified in the Charter is a 'Family Action Group'. The task of this group is to promote harmony and unity through a range of suggested intervention including the Family Shareholder Assembly, which it is responsible for planning and organising.

The Charter stipulates that the Assembly will meet every two years and will review performance in specific critical business areas including divisional performance and CSR. Every four years it will be updated on Family Council membership. The intention for the gathering is to go beyond a simple business meeting and specific intentions are stated to run a family day to which spouses and children would be invited. The purpose of this is to promote the notion of 'familiness' and allow family members to get to know one another. The Charter is prescriptive in terms of the potential activities that might take place. These include discussions around family ethos and values, storytelling to help younger members understand their heritage, and nurturing and educating the next generation for potential engagement with the company. This further illustrates the active steps the senior members of the family are taking to construct family identity and belonging.

The Charter provides for a specific company remunerated role. This is called the Shareholder Coordinator. The Charter defines this as a non-family role whose purpose is to support family shareholders, maintain the register/family tree, deal with questions regarding share transactions, tax planning, company/family liaison, including company visits and coordinating work experience programmes for the 'next generation'. The holder of this office will also provide secretarial support for the Family Council. In essence, this post has duties similar in nature to those of a clerk to the family 'office' and represents a significant link between the board and the family in general.

A specific appendix to the Charter deals with the roles and responsibilities of the Chair of the Family Council. Various roles have been set out above in relation to the board committee structure. This role is significant as it is the link between the Company, the family governance structures and the family members themselves. In the context of this corporate setting, this is a lead family role. The Chair is appointed for a period of four years by the members of the Council.

5.2.6 Family Involvement

The family vision and values specifically refer to the provision of income and security for future generations as well as the provision of opportunities for the next generation to be involved in the business. As previously noted, however, the Charter highlights that the needs of the business come first, and involvement will be on a meritocratic basis.

Section 10 of the 2017 Charter specifically sets out the basis of family involvement in the business. This is based on the needs of the business and the actual abilities of the family member. The criteria for employment is listed as a person's appetite, their qualification, skills and experience, and their ability and competence.[13]

Although the family employees are privileged in some ways – for example, a Charter provision offers mentorship for family employees from a non-family non-executive director – the general message to the next generation is that they will be treated the same as any other employee in all other terms. Compensation and other benefits will be the same as other non-family employees, conflicts of interest/relationships with customers and suppliers need to be declared and work place supervision will be by non-family members, where possible.

There is also a specific, although undeveloped, section on entrepreneurial support and the Family Council is charged with developing policy to support family members.

5.2.7 Strategic Framework

The main form of communication between the family and the board is a periodic letter to the board setting out the wishes of the family. Such letters were sent in 1994, 1997, 2003 and 2007. The current letter was updated on 12th April 2017. The purpose of the letter was to

[13] Ibid Paragraph 10.1.3.

"provide clarity to the board on the direction and parameters in which the family wish the board to operate".[14]

The letter is a detailed document setting out the objectives, the metrics linked to financial risk, commercial risk and long-term development, return on capital, dividends, share valuation, remuneration and bonus provision, family directorships and family employment. On this latter point the letter notes: "*we continue to expect that any member of the family, if you are asked, would be considered for employment at their level of ability and experience*".[15]

Under the Charter arrangements, the responsibility for this letter is vested in the Family Council, which is charged with establishing in its first year of operation the board proposals that require discussion/approval with and by the Family Council.

5.2.8 Stakeholder Relationships

The company devotes a considerable amount of its website to its CSR activities. Focusing on three heading – Growing our Community, Feeding Young Minds and Sustaining our Environment – the company has blogs showing the different events and initiatives employees from different subsidiaries have engaged with to support local and national charities. These events are coordinated by a charity committee that includes representatives from each subsidiary company as well as the shareholders.

In September 2018 the company launched a Foundation carrying the name of the family. This will work with one named charity that supports children and young people. The activities of the Foundation will be supported by charity champions drawn from the subsidiary companies and the shareholders.

5.3 Company B

This company is primarily of interest because it challenges the notion that shareholding will be diffused in cousin consortium family owned companies. This business was founded in 1882 and for most of its history has traded in the area of optics. It changed its operation ins December 2014 when it sold the trading operations to a national chain of opticians and became a property and financial investment management company. At the time of the transfer of the

[14] Ibid Appendix 1 (p.23).
[15] Ibid Appendix 1 Paragraph 10 (p.25).

trading operation, the company was operating branches throughout the north of England. The properties the company operated out of remain part of the portfolio of investments the company now manages. The accounts disclose that current turnover is derived from rents received from a portfolio of investment properties and other investment income. The 2019 accounts show total investments, both property and financial investments, totalling £4.54 million.

5.3.1 Financial Performance

The financial statements for the four years to 31st December 2019 disclose the following:

Item/Year	**2016**	**2017**	**2018**	**2019**
	£m	**£m**	**£m**	**£m**
Fixed Asset/ Investments	2.17	2.15	1.95	1.79
Net Current Assets	2.31	2.15	2.81	2.75
Retained Earnings	4.48	4.30	4.48	4.20

Table 8: Company B four year financial performance 2016 - 2019

Prior to the sale of the operations, the company's annual turnover was in the region of £8m. In the five-year period to the transfer, the financial performance of the company was as follows:

Item	**2010**	**2011**	**2012**	**2013**	**2014**
	£'000	£'000	£'000	£'000	£'000
Turnover	8,620	8,633	8,685	8,793	8,740
Pre-tax Profit	41.5	187.6	71.9	272.6	1.612
Net Assets	2,460	2,593	2,641	2,755	4,002
Dividends	nil	nil	nil	nil	nil

Table 9: Company B five year financial summary: 2010-2014

5.3.2 Generational Involvement

The company currently has two directors, both are family members, the Chair being the fourth generation member and the second being his son. Although there was a point in time in the

history of the company when the shares were held by three different branches of the family, the shareholding was consolidated into the hands of one branch by inheritance decisions made by the three third generation shareholders. All three were daughters of the eldest son of the founder.

Although the fourth generation family member was put into the position of a founding family owner, exercising both *de jure and de facto* control, it is interesting to note that for a considerable period of time this family member held no formal management or governance role. After an initial period leading a small board consisting of himself, an executive director and a non-executive director, the company structure was changed and in 1997 a holding company/subsidiary company structure was created. The fourth generation owner acted in a shadow capacity in relation to both companies. After 1997, he did not hold an official directorship in either company and only re-joined the boards of both companies in July 2015.

The fifth generation son, who joined the company in 2008, had been appointed as a holding company director in 2004 and he remains a director of this company. He became a director of the subsidiary company when he started working for the company.

The fourth generation's wife was a director of the holding company between 1998 and 2010, as was a second son between 2004 and 2010. Neither the fourth generation shareholders' wife, nor the second son, carried out any operational activities in either company. The longest serving director was a third generation aunt of the fourth generation owner who maintained a board position between 1947 and 2001. Before the fourth generation family member assumed responsibility, the aunt was the MD of the company for many years.

This case study provides an important contribution as an extreme example of how the personal authority of family owners can override or circumvent formal governance structures. Chapters 2 and 3 have demonstrated the primacy given to the board by both regulatory provision and the board theory literature. In this case study, the power of the board is limited by and subject to the individual power and influence exercised informally through relational mechanisms by the fourth generation owner. An attempt to describe the disposition of power and influence in this company that only takes into account formal governance structures would fail to locate the real source of power and influence comprehensively. The case study is an example of how the conception of family power set out in chapter 3 may be too narrowly described to locate the actual source of power and influence in certain family owned companies.

5.3.3 Share Analysis

As noted, prior to the sale of the main trading operations the group had a simple structure with a holding company holding 100% of the share capital of an operating subsidiary. In 2018 the subsidiary company was dissolved leaving the holding company as the only active entity. This company currently has six registered shareholders. 56% of the shares are held by two fifth generation siblings and the remainder is held in family settlements or by a company pension scheme. The largest single holding is that of the last family member to join the company prior to the sale of the operations of the company (fifth generation). He holds 46% of the shares. His brother, who has never been involved in the management of the company, holds 10%. All shares have equal voting rights.

The family settlements and pension scheme are administered by the current fourth generation Chair of the company. The beneficiaries of the family settlements are the fourth generation Chair and his immediate family. No one person, therefore, holds direct de facto control, but de jure control is exercised by the fourth generation chair and the sibling holding the 46% shareholding.

Prior to the sale of the trading operations the shareholding structure was different. At that time direct shareholding was more diffused and 30% of the shareholding was directly held by the two fifth generation siblings and their mother. The remaining 70% was directly held or was held in trusts under the control of the fourth generation family member.

5.3.4 The Board of Directors

As noted above, the holding company now has two directors: the fourth generation descendent of the founder, and his son, who joined the group in 2008. The family involvement has been noted above but this company had two non-family directors for a time. A full-time employee held a directorship until he left the company in 1993, and a non-executive director held a position between 1972 and 2009. Between 1969 and 1993, the directors of this company were the fourth generation family member and the two non-family members.

The subsidiary trading company was acquired by the group in 1982. This company was dissolved in January 2018, following the sale of the trading operations of the group. 100% of the shareholding was held by the holding company.

At the time of the sale of the trading operations the subsidiary company had seven executive directors. At that point, one director was the fifth generation family member who had joined the group in 2008. The remainder of the directors were all non-family members and, with the exception of the finance director, were qualified practitioners in the main area of activity of the group. Three had been appointed to the Board in 1997 and three in 2003.

A point of interest in this analysis is the lack of formal engagement by the fourth generation owner as director, either with the holding company or the subsidiary company. The shadow but highly influential role of this family member will be discussed below. Further, for over 30 years leading up to the date of sale, the fourth generation owner engaged a retail management consultant to advise the company. Although this relationship was initially based on the provision of marketing services, over time this individual effectively took on a shadow non-executive position and for a number of years led the group's strategic development.

Although neither the fourth generation family member nor the retail management consultant held formal board positions, they exercised significant power and influence in terms of strategy and culture. The analysis will examine the relational mechanisms that enabled the exercise of such power and influence.

5.3.5 Family Governance Arrangements

Despite the longevity of this company and the potential for shareholding to be diffused across different branches of the family, the conscious decisions taken by previous generations concentrated control of the company in the hands of a single member of the fourth generation. The third generation consisted of three daughters, including the mother of the fourth generation Chair. One of the daughters, an aunt of the fourth generation Chair, never married but managed the company from 1946. She passed all her shares to her nephew. A second aunt did marry and she did have a child but believed the business should be in the hands of her nephew and passed the shares to him. Through these means a single branch of the family gained control of the business by the fourth generation. The assumption of total control by one family member at the fourth generation stage is in contrast to the assumptions that control will be diffused through trans-generational transmission. The case study provides an opportunity to consider the means by which power and control was exercised by this fourth generation owner given that his position was no different to a founding family member. The case study provides an opportunity to examine the governance structures created even though ownership and management were fused at the fourth generation stage.

There are no formal arrangements in place to manage the family's engagement. This is understandable given that, until his son joined the group in 2008, there were no family members employed by the company, no other branches of the family had any beneficial interests in the shares of the company and the fourth generation family member had a controlling shareholding interest.

In essence, because of the succession decisions made by the third generation, the fourth generation exercised de facto and de jure control over the company and was placed in a position, in terms of power and control, similar to that of the original founding member.

5.3.6 Strategic Framework

At the time of the sale of the company's optic trading operations, the fourth generation family member exercised family control over the company via the shadow role. Until 2008, when the fifth generation family member joined the company, all executive directors of the subsidiary company were non-family members, including the MD. As noted above, these directors were appointed in 1997 and 2003. Prior to this, the company had engaged a non-family non-executive director and a non-family retail management consultant. The family has effectively been represented and led by the fourth generation Chair and the involvement of the fifth generation member came about only after that family member has developed a career elsewhere. No formal family governance arrangements have existed during the life of the company.

The shadow roles of both the fourth generation family member and the retail management consultant reflect relational governance roles beyond the strict confines of the board, the main contractual mechanism noted in governance regulations.

5.4 Company C

Company C is a multi-family company. The firm, founded in 1748, started life as a distiller of raw turpentine and later moved into tar distillation and rosin manufacture. It currently operates in the lubricant, marking and non-slip coating area.

Two families have been involved in the firm since the 1880s. At that time, following the collapse of the price of pitch, the original family firm faced bankruptcy and was saved by external finance from a second family. When the firm was incorporated in 1902, the family

providing finance took 52% of the share capital and the founding family retained 48%. Up to the present time, the founding family has been responsible for the operation of the company while the other family has had board representation and has acted as the 'investment' family.

5.4.1 Financial Performance

The financial performance of the company as disclosed in the five years to 31 December 2020 is as follows:

Item	2016	2017	2018	2019	2020
	£'000	£'000	£'000	£'000	£'000
Turnover	28,458	33,504	37,666	41,700	40,614
Pre-tax Profit	3,376	5,771	5,740	5,709	6,186
Net Assets	15,816	19,621	23,396	27,078	31,469
Dividends	500	650	750	775	825

Table 10: Company C five year financial summary: 2016-2020

The latest financial statements disclosed that the average number of employees was 246. The company operates out of a single manufacturing centre in the UK.

5.4.2 Generational Involvement

Both families are involved in the board. The current Chair is a fifth generation member of the founding (managing) family. He has been joined on the board by another fifth generation member of a different branch of the managing family. This second family member holds a non-executive position. The second family, the investment family, also has two non-executive places on the board, one of which is occupied by a shareholder and the other by the son-in-law of a shareholder. The shareholder acts as vice-Chair.

There is only one managing firm member working in the company. He is the non-shareholding son of a cousin of the current Chair. He holds a management position in the company and on 27th June 2019 took an executive position on the board. He joined the company in 2016 having previously worked overseas.

5.4.3 Share Analysis

The company has one class of shares, £1 Ordinary Shares. The disclosed called up share capital is £250,000. All the capital is allotted, called up and fully paid. The last Annual Return disclosed that the shares are held by 30 individual shareholders, the largest individual holding being 37,806 shares, which represents 15.1% of the allocated shares. This is held by the current Chair.

No one individual shareholder has overall control. The company, as noted, is a multi-family company and since its inception, the shareholding has been held 52%/ 48% by two families. The current shareholding reflects the continuing involvement of the two families and the notion of managing family/investment family persists in the consciousness of the fifth and sixth generations.

Control over ownership is exercised through the Articles of Association. The original Articles of Association registered in 1902 restrict the transfer and transmission of shares and prevent the shares being alienated from the family except in specific circumstances. In particular, no share could be transferred to a person who was not a member or nominee of a continuing member while there was a member willing to purchase the shares. Where the nominee of the continuing member was not a husband, wife, son, daughter, cousin, nephew or niece, then the nominee must first have been approved by the directors. The directors had explicit powers to refuse to register a share transfer in a number of circumstances, including where the proposed transferee was not a member, and where the directors believed the person to be undesirable to admit to membership. This could not apply to an existing member.

The transfer of shares took place at a fair value determined by a process established in the Articles, and provisions set out the means by which an existing member could acquire the shares of another. Where a purchaser could not be found, the seller was empowered to sell to any person at a price determined by the seller and purchaser. This was subject to the directors' power to refuse to register a transfer.

On 9th June 2011 the company adopted a new set of Articles. Restrictions on the transfer of shares persist. The revised provisions permit a member to transfer shares to:

a) a 'Permitted Transferee' as defined by the Articles; or
b) any person who two thirds majority of the members approve.

For these purposes a 'Permitted member' is defined as: "*any member, any of a Member's Privileged Relations, Family Trusts or the trustees of those Family Trusts or another Member's Privileged Relations, Family Trusts or the Trustees of those Family Trusts provided that (where the transferee is not already a Member) such transferee will upon completion of the transfer, hold at least 2,500 Shares*".

A 'Family Trust' is defined as: "*a trust or settlement set up wholly for the benefit of an individual Member (Settlor) and/or the Settlor's Privileged Relations*".[16]

The 'Privileged Relation' refers to:

> *the spouse, Civil Partner, widow or widower of a Member, the Member's children and grandchildren (including step and adopted children of the Member and step and adopted children of the Member's children or step or adopted children) and their spouses, Civil Partners, widows or widowers, the Member's siblings (including step, adopted and half siblings), the Members cousins (not just first cousins), nephews and nieces and the Member's parents (including step and adoptive parents)*.[17]

Further restrictions apply. A transfer to a Family Trust can only be made if the board is satisfied with the nature of the trust, the identity of the Trustees and the transfer does not result in more than 50% of the share capital being held by trustees of this and any other trust.

The Trustees of a Family Trust may transfer shares to the Original member, the Original Member's Privileged Relations, another trust created by the Original Member or the new trustees of the Family Trust. In all cases the minimum transfer must be of 2,500 shares.

There are a number of circumstances within which a deemed Transfer Notice is given in respect of shares. Except in the case of death, a spouse or Civil Partner who ceases to be a spouse or Civil Partner of the Original Member shall transfer or be deemed to give a Transfer Notice. Similarly, where, on death, an Original Member's shares pass by will or law to someone other than a Permitted Transferee a Deemed Transfer Notice is deemed to have been given.

[16] Ibid.
[17] Ibid.

The Articles do contemplate shares being held by employees, but specific provisions note that a 'Departing Employee Member' will be deemed to have given a transfer notice on the date of the termination of the employment.

Subject to the above provisions relating to transfer to Family Trusts and Privileged Relations, and to a set of Drag and Tag Along Rights, all other transfers are subject to pre-emption rights of members who apply to purchase such shares. The effect of these provisions is to maintain the ownership of the shares within the defined family.

5.4.4 The Board of Directors

The board of directors consists of six individuals. The board has two representatives from each of the founding families in non-executive capacities, one managing family executive director and two non-family members, including the non-family Managing Director. A non-shareholding family member employed in the company has an executive position on the board. The board is chaired by the fifth generation family member from the managing family. He, and two other Directors, are also shareholders. One family non-executive appointee does not have shares in the company.

The Articles contain provisions relating to the appointment, retirement and termination of a director's appointment. There are no specific provisions governing family membership of the Board. The arrangements for the appointment of family members reflects an informal arrangement between the two families.

Section 5 of the current Articles gives a power to the board to delegate their powers to such "*person or committee… as they think fit".* In the case of this company a further committee sits underneath the main Shareholder Board, and this is called the Commercial Board and is made up of the Chair, one representative from the second family, and the managers of the company. This committee is seen as the main operating committee that runs the company.

5.4.5 Family Governance Arrangements

Despite the existence of sixth and seventh generation family members and the complexity of having a multi-family business, there are no formal family governance arrangements in place. Contact between the company and family members mainly consists of formal shareholder communications initiated by the Chair in relation to company performance and dividends. In

neither case is there evidence of the wider family on either side meeting as a group to discuss shareholder/family issues.

5.4.6 Family Involvement

Fifth generation family members are involved in the management of the company through board membership. One non-shareholding sixth generation member of the managing family is an employee. He joined the board in June 2019, and it is anticipated that he will eventually take on the role of MD.

5.4.7 Strategic Framework

There are no formal mechanisms for the two families to communicate with the company, other than through the board representatives and periodic written communications from the Chair to the shareholders. There is no strategic framework setting out the expectations of either family. Strategy formulation is the responsibility of the Commercial Board, subject to ratification by the Shareholder Board.

5.5 Conclusion

Purposive sampling identified three very different companies that are intrinsically interesting and provide opportunities to analyse the research questions in from three different perspectives. The vignettes demonstrate that these companies vary in respect of:

a) the extent to which share ownership is diffused;
b) the number of family members involved in ownership and management;
c) the business sectors they are involved in;
d) the share structure and rights attaching thereto;
e) the contractual governance arrangements established ;
f) the relational governance arrangements in place; and
g) the extent to which a collective family ‘voice’ is exercised.

The three companies contrast with some generalised representations and assumptions about multi-generational family companies, particularly in relation to shareholder diffusion and family relationships, and to this extent, reflect the heterogeneous nature of family companies at the fifth or more generational stage. They provide an opportunity for analysis and synthesis of three very different family owned companies with distinct governance profiles.

Chapter 6: Analysis

6.1 Introduction

The purpose of this inquiry is to develop an ideographic body of knowledge, 'thick descriptions', which will lead to a deeper understanding and allow for the formation of working hypotheses. This chapter aims to present the 'thick descriptions' for each case and analyses the ownership, management, leadership and governance arrangements in each company. The working hypotheses will be presented in chapter 7 as discussion points.

6.2 Analytical Context

As discussed in chapter 4 the analysis is informed by three reference points. The first draws upon the governance and power literature and the structures and mechanisms through which power and influence are exercised. Five areas are noted: ownership; management; the board; leadership and the relational governance mechanisms created. The conditions attaching to ownership and the role the family plays in the leadership, management and governance of each company is analysed. Furthermore, the analysis assesses the role of relational governance mechanisms. This is significant as this thesis argues that relational governance is concerned with the governance of the company as well as the family.

Secondly, the analysis has been informed by the socioemotional wealth scale, the FIBER scale, previously referred to in chapters 3 and 4. The scale identifies those dimensions reflecting the socioemotional endowments present in family companies. These elements refer to the structural sources of power and influence – ownership, management and the board – and to additional criteria relevant to the inquiry. In particular, the scale contemplates such matters as the employment of family members, intra-family relationships, family behaviours, the rewards attaching to family involvement and stakeholder relationships. The scale captures not just who is involved in the company but also the type of decisions the company is making and those who benefit from such decision making. The FIBER scale elements have been identifed in each section of the analysis and serve to frame the discussion in that section. Four of the FIBER dimensions provide an opportunity to analyse the impact of shareholder diffusion in multi-generation family owned companies by examining family ties, family identity, emotional attachment and dynastic renewal. The thesis challenges the fifth dimension, which refers to family power and influence, on the basis that no consideration is given to the impact of

relational governance measures. The analysis will demonstrate the need for the FIBER scale to revise its conception of family power and influence to recognise relational governance mechanisms as additional sources of family power and influence.

Finally, the analysis is informed by the four family relationship dimensions referred to above in chapter 4. The four dimensions suggest the potential for intra-family issues both within the company and within the family shareholder group. These issues are linked to the interplay of power, influence and conflict. As noted in chapter 4, the dimensions include a category of relationships not contemplated in Tagiuri and Davis' (1996) model presented in chapter 1, namely, the relationship between family members within a company. This reflects a more nuanced perspective adopted in this thesis regarding different power relationships that might exist across family members engaged in the company. Individual members may access and exercise power differently.

The theme uniting all of these reference points is the examination of decision making in each company. An understanding of who makes decisions over what issues will lead to an understanding of the disposition of power and influence and will highlight the decision making involvement of the family shareholder group. Further, the analysis will show how current policy and theoretical conceptions of the sources of power and influence in multi-generation family owned companies need to take into account the impact of relational governance mechanisms as additional sources of episodic power.

The iterative analysis process noted in chapter 4 led to the following themes, which form the basis of the structure of this chapter:

a) Ownership
b) Management
c) The Board
d) Decision Making
e) Relationships
    a. Intra family
    b. Family/Company
    c. Non-family stakeholders
f) Leadership.

Each of these themes provide an opportunity to analyse the three case study companies and families and present the ‘thick descriptions’, the ideographic body of knowledge that will inform the working hypotheses presented in chapter 7. In particular, the analysis will demonstrate how family shareholders continue to exercise power and influence over specific areas of company decision making, even though the family does not physically dominate management or the board. It will specifically show how relational governance mechanisms are used by shareholders to retain control and influence over aspects of company decision making as well as managing family relationships.

6.3 Ownership

This analysis examines how family shareholders retain power over voting rights. The FIBER scale highlights aspects of family ownership contributing to the retention of family power referred to in Table 11 below, and this provide a framework for the analysis. These aspects relate to three major issues: the exercise of de facto/de jure control through majority shareholding; the retention of the company as a family concern; and the transgenerational succession intentions of family shareholders.

The FIBER scale elements are as follows:

The majority of shares in my family business are owned by family members
Preservation of family control and independence are important goals for my family
Continuing the family legacy and tradition is an important goal for my family business
Family members would be unlikely to consider selling their family business
Family owners are less to evaluate their investment on a short term basis
Successful business transfermy to the next generation is an important goal for family business

Table 11: Socioemotional wealth FIBER scale: Berrone, Cruz et al 2012

As set out in chapter 5, in all three case study companies the family holds the majority of shares and exercises de jure control. In Company A, the major five branches of the family hold over 80% of the voting shares, with the remainder being held by more distant family members, trustees of an employee benefit scheme and some employees. There is no single dominant shareholder, the largest individual shareholdings being in the region of 5%-7%.

In Company B, 100% of the legal and beneficial interest in the shares are legally vested in a single fourth generation family member and his two fifth generation sons.

In Company C, the shares are distributed between two families, with one maintaining an interest in excess of 50%. Combined, the members of both families hold the majority of shares with a small proportion being held by current employees. The largest single shareholding represents approximately 15% of the issued share capital.

In the case of Company A and C, the retention of de jure control of the company has been actively managed and both push and pull factors can be seen to be in play. Respondents from both companies have noted the wish of the family to remain 'independent' of external shareholder influence. The current Chair of Company A stated:

> *We had a debate at the outset [of the drafting of the Charter], we did a survey and we agreed we were going to keep it private and so it's going to remain private for many many years so the board are fully aware of that* (Company A:3).

Similarly, the Chair of Company C reflected on the main intentions of the shareholders:

> *I think if they had a vision at all it was 'we want to stay independent and… I don't want to give it up on my watch… we've been going for five generations… I don't want to stop now'* (Company C:1).

Both companies are managed on the basis of family agreement that it will not seek external equity investment. Family wishes and consensus represent the pull factors. In chapter 5 it was also noted, however, that the Articles of both companies contain provisions relating to class rights and restrictions around the sale and transfer of shares that serve to ensure that family control is retained. These reflect the push factors.

The arrangements in the Articles both protect and restrict, as a result of which the individual family shareholder has fewer beneficial rights than an ordinary shareholder might have in a non-family private company. The barriers placed in the way of the alienation of shares, together with the expectation of transgenerational transmission, redefine the shareholder almost as a temporary steward and the beneficiary of a collective asset belonging to the family as a whole.

In the case of Company A, the arrangements established by the five main branches in relation to the 2007 ordinary class of shares has ensured that 27% of the voting rights of the company are execised through one vote, and this is sufficient to defeat any extraordinary resolution.

Given these shareholders also control approximately 80% of the total voting rights, family control would be relinquished only if the five branches agreed.

Further, the control exercised through the sale/transfer restrictions contained in the Articles as set out in chapter 5 serve to ensure share transfers remain intra-family. Reflecting on these provisions, the former fourth generation Chair noted:

> *Nobody has actually sold any ordinary shares for fifty years and the family is, if you like, happy watching them grow but there have been controls on to whom or where they are allocated and we have private rules about passing them on too… we are always worried about some divorce or something like that and half the shares have disappeared… then there is another class of shares which involves employees and that's been a help* (Company A:1).

Similar provisions exist in Company C, although as highlighted in chapter 5, these go further in that they restrict the quantity of shares family members can transfer and the use of family trusts to manage shareholding. In the case of the latter the restrictions are aimed at preventing a dominant shareholding being built up within a family trust structure. The family leaders involved in management not only seek to ensure, through the Article provisions, that they retain control over share ownership but also wish to manage the number, type and voting power of individual shareholders.

> *…and we've brought in a rule that nobody can own less than 1% of the shares… we've got families of five and six children and they've got 6,000 shares and there's no way… they've got to have 2,500 each… and… some of them decided to put them in trust to get round it that way… but I just don't want a plethora of shareholders* (Company C:1).

In both Companies A and C it could be argued that individual family shareholders now have little individual influence over the decision to retain family control over the company. If family members wish to sell their shares, the proxy provisions come into effect and mechanisms exist to limited who they can sell to and the price at which that transcation will take place. The buy-back provisions in both companies are a protective measure that enables the family to help a family member to exit with value without ownership being transferred outside the family. The provisions create conditions within which the collective will of the family - as expressed in Company A through the will of the five dominant branches, or in Company C by the majority of

both families coming together in agreement – is necessary for the companies to change their ownership profile.

In the context of these contractual provisions, transgenerational intentions are strong in both Company A and C. The family shareholders interviewed who were not part of the leadership group had all inherited shares or acquired others when family members made them available.

> *"I have inherited some and bought some" (Company A:4)*

> *"the bulk of the shares were passed onto me by my mother on her demise and there were other shares released…by other family shareholders which I purchased from the estate of the person who had died" (Company C: 5)*

Asked if they intended to pass on their shares to the next generation the shareholders emphatically replied:

> "*that's exactly my intention" (Company A:4)*

> *"Yes" (Company C:6)*

A Company C shareholder reflected on the complexity arising from the restrictions placed on the quantity of shares that can be passed on. The shareholder noted:

> *"there is a minimum number of shares that can be passed on, so to be equitable, I shall put the shares into a trust fund administered by my eldest daughter" (Company C:5)*

The attitude to sale was reflected by the same shareholder who noted:

> *"there's a double issue…there's the connection with the family…that's obviously one reason for retaining the shares and the second one, which is equally important is the dividend as the shares have been exteremely valuable and compare favourably with any other investment at the present time. I certainly wouldn't consider selling the shares because I do like the continuity of the relationship with the firm from the time that my great grandfather took ownership" Company C:5)*

The interplay of family connection and investment was different to a family shareholder from the same company who noted, despite a stated intention not to sell and to pass the shares onto the next generation, that the shareholding was:

> *"more of an investment although the family connection does play a part" (Company C:6)*

The responses of these shareholders confirm expectations set out in the FIBER scale regarding transgenerational succession, even though these companies are at the fifth or more generation stage. The responses of these shareholders reflect the notion that the origin of their shareholding and manner of the acquisition affects their attitude as shareholders and their role as stewards is reflected in their intentions to pass on their shares to the next generation. In relation to their position as shareholder one did state:

> *"I'm really very lucky…purely by accident of birth, to be in this position…not many people are as privileged" (Company C:5)*

The position in Company B is very different, for instead of shareholding becoming increasingly diffused over the generations it has actually become more concentrated. The result of this has been that for the time the fourth generation Chair has controlled the company, he has been in the same position as an original founder. In particular, there have been no other family shareholders to whom he has been accountable. This reflects the type of natural cirumstances that may determine the history and shareholder profile of family companies. By the third generation, the company's shares were held by three sisters, one of whom was the mother of the fourth generation Chair. He was an only child and inherited all the shares held by his mother. One aunt never married, and she, too, passed the shares on to the nephew. The second aunt did marry but made a decision to exclude her own child from inheriting the shares in favour of the fourth generation Chair. He noted:

> *so really my immediate family have all the shares purely because two aunts gave up their thirds to do it… and I've always appreciated that because you haven't got shareholders looking over you… I was always told it was because she [an aunt] didn't think [C – the aunt's child] was up to it and she was right…* (Company B:1).

When questioned, the fourth generation shareholder noted that he had rejected any idea of bringing in external investment and had never contemplated using shares as a means of executive reward. Maintaining family control over shareholding was important.

6.4 Management

Chapter 3 showed how current familiness and socioemotional wealth literature posited the need for the family to physically dominate management to retain power and influence.

Family/blood relationships are held to be different to contractual relationships and the day-to-day exchange between those controlling the company will be different. These relationships are seen to impact on company values, relationships with key stakeholders, particularly employees, and also frame decision making. The power exercised as a result of the family managing the company impacts upon strategic decision making , and non-economic family centered objectives may be as important as economic objectives. Carney's (2005) work on the unique characteristics of family companies – parsimony, personalisation and particularism – further captures the potential distinctiveness of family companies.

Reflecting this, the FIBER scale highlights the involvement of the family in the management of the company as a significant indicator of power and influence. As discussed in chapter 3, the FIBER scale reflects the conception of family power and influence in the F-PEC and FIFS scales. The FIBER scale provides a framework within which to analyse the degree of management involvement of family members from the case study companies. It, too, provides a basis to show the limitations of the FIBER scale in conceptualising family power and influence.

In my family business, family members exert control over the company's strategic decisions
In my family business, most executive positions are occupied by family members
In my family business, non-family managers and directors are named by family members

Table 12: Socioemotional wealth FIBER scale: Berrone, Cruz et al 2012

It is a striking feature of the three companies in this inquiry that very few family shareholders are involved in management. As will be discussed in section 6.6 below, those who are involved are regarded by the respondents as being there on merit rather than family status. Further, of even those family members who are involved, few are involved in the day-to-day operational management of the company or occupy executive positions. In all three companies, the MD position is or has been held by non-family members and non-family members occupy the majority top team positions. For all three case study companies, management by itself is not, therefore, a major source of family power and influence.

In the case of Company A, the only executive management position held by a family member is that of Executive Chair and the remaining senior management roles are held by non-family members. One family member is employed as one of three management trainees and two family shareholders have been appointed by the Council to non-executive board positions.

Similarly, in the case of Company B, until the fifth generation son joined the firm in 2008, the fourth generation member acted outside of the contractual governance arrangements and a subsidiary company was wholly managed by non-family members. No other family members were directly involved in the management of the company.

There is also a lack of family involvement in management in Company C. For much of the past 40 years the only family member involved in executive management was the fifth generation MD. All other family engagement was through representation on the board and committees. The fifth generation MD relatively recently stepped down and assumed the role of Chair and a non-family MD was appointed. A sixth generation family member joined the company in 2016 and has a senior management role. In June 2019 he was appointed to the board. He is now the only family member who now holds a full time executive position.

The limited engagement of family members in the management of the case study companies is contrary to the expectations of the FIBER scale. The limited engagement is, similarly, contrary to the expectations set out in the F-PEC and FIFS scales referred to in chapter 3, which seek to measure familiness.

The above analysis would highlight that control over operational management through family dominance of top team positions is not a major source of family power or influence in these three case study companies. The question arises, therefore, how power and influence is exercised, if at all, and attention must be paid to the governance arrangements in place. In particular, the analysis must address board role and the impact of any relational governance mechanisms affecting the operation of the board.

6.5 The Board

The literature review has noted the emphasis placed on the family's dominance of the board in the F-PEC and FIFS scales (Klein, Astrachan et al 2005, Frank, Kessler et al 2017). It has noted, too, how the F-PEC scale has influenced the FIBER scale.

The FIBER scale, therefore, contains a single statement in relation to the board:

The Board of Directors is mainly composed of family members

Table 13: Socioemotional wealth FIBER scale: Berrone, Cruz et al 2012

The analysis will show that the positions taken in the FIBER, F-PEC and FIFS scales, are an over-simplification and that in larger multi-generation family owned companies the family's power and influence over the board is much more complex. The analysis will show that it is necessary to understand how both formal and informal relational governance systems are alternative sources of episodic power within the company. Understanding the inter-action between the contractual and relational governance mechanisms is key to understanding how power and influence is exercised by the family over company decision making.

6.5.1 Company A Governance Arrangements

Company A has sophisticated and complex contractual and relational governance arrangements. In contractual governance terms, the family has established specific mechanisms through both the Articles and the board. In relational governance terms, a Family Charter has been established which provides, inter alia, for a Family Council and an Assembly and creates mechanisms for the selection of board members, participation in remuneration decisions, the nomination of non-family board members and senior executives and, through a Shareholder letter, establishes the strategic parameters within which board decision making must operate. It is through the operation of the relational governance mechanisms that the family continues to exercise power and influence over specific areas of company decision making. This analysis demonstrates the role relational governance mechanisms play in the governance of the company as well as the family, a role not contemplated by either current private sector governance regulations, Suess's (2014) analysis of the role of relational governance or the FIBER, F-PEC or FIFS scales.

The contractual and relational governance mechanisms in Company A may be represented as follows.

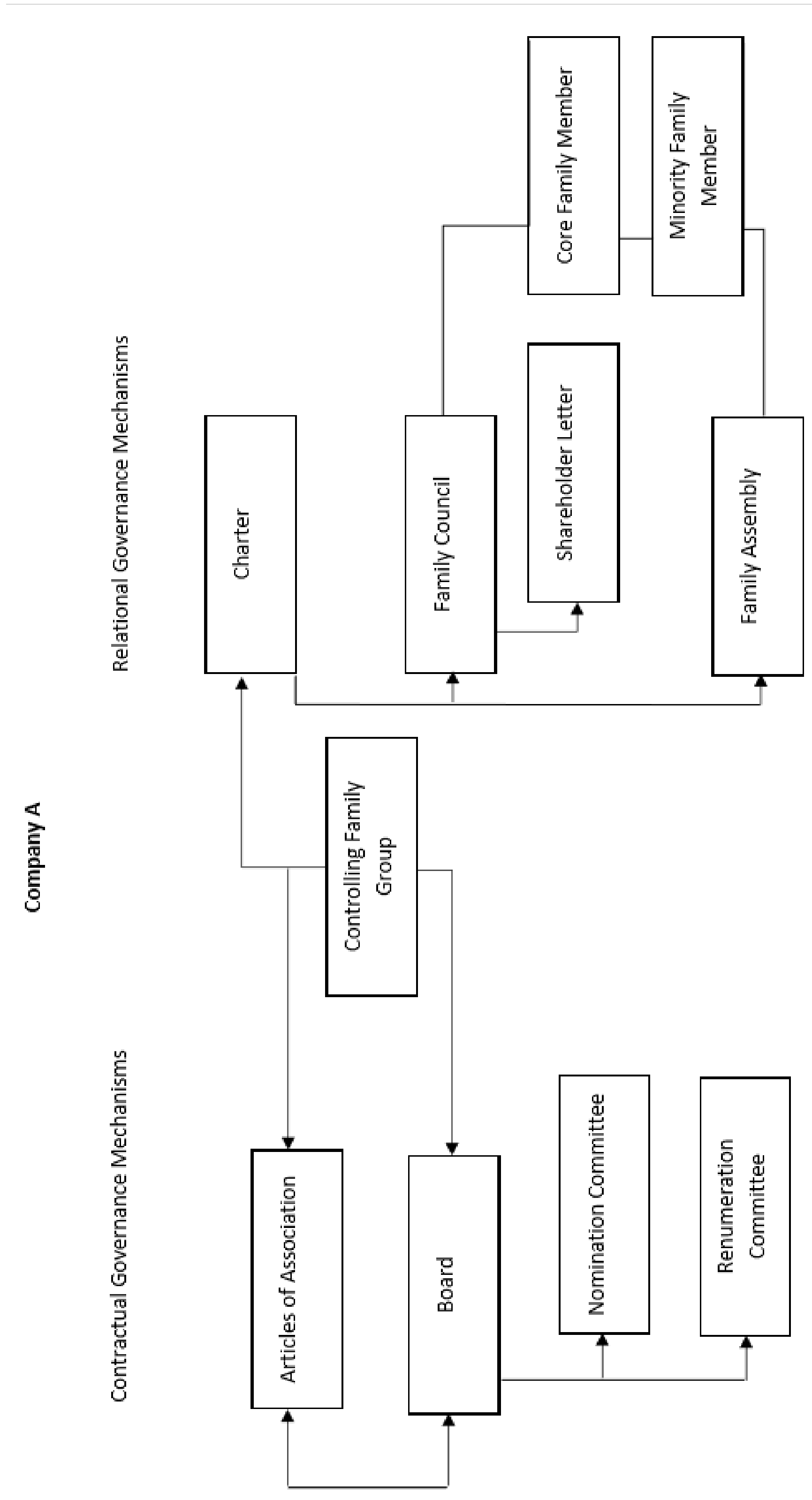

Figure 5: Governance structure in Company A

This structure will be referred to throughout this analysis. At the centre of the contractual governance arrangements is the board. The board of Company A consists of eight individuals and is made up as follows:

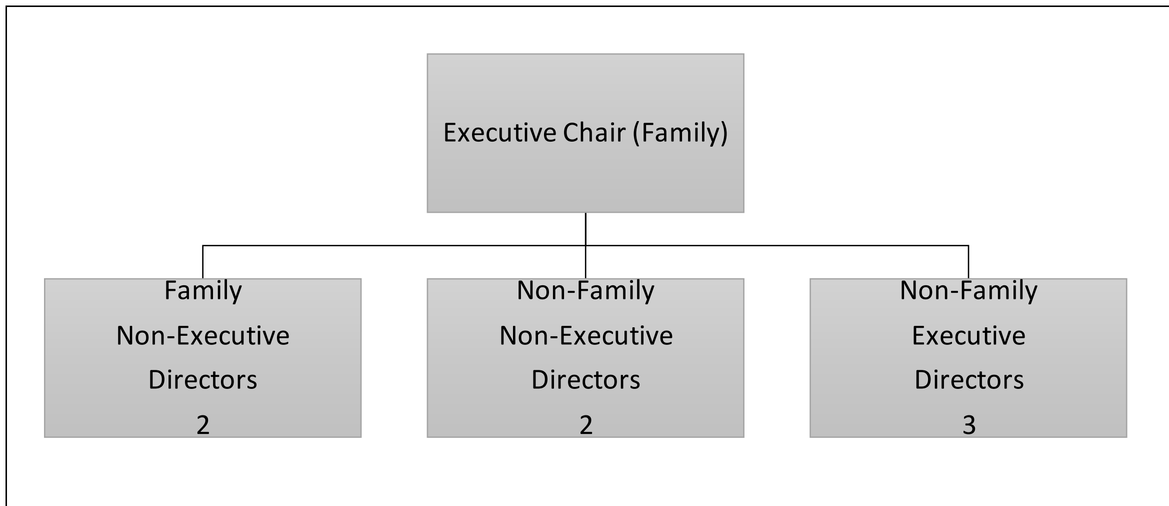

Figure 6: Company A: Board Composition

Out of the eight board members, the family holds only three posts; two non-executive positions; and the Chair. The family does not numerically dominate the board.

In accordance with best practice, the board has sub-committees: the nominations committee and remuneration committee being the more important for the purposes of this analysis.

Two family NEDs are appointed to represent the family on the board. The Charter defines their two-fold roles. First, as members of the board they are required to exercise their skills and knowledge for the benefit of the company in compliance with their legal obligations. Within the context of agency theory, the monitoring and control role addresses vertical agency issues arising. Secondly, and consistent with the board theory literature, they have a representative role and perform a monitoring, control and linking role on behalf of the family shareholders. Their role specifically addresses horizontal agency issues arising between the family and the company.

In relation to their skill base and competence it was noted that*:*

> *it has actually been really important to us that there are at least some family members in the board who are good enough to be there even if they're NEDs who are just sent there to represent it and just check that the board is not going rogue… one of our big*

issues for the next generation is how we bridge from where we are now to when they are fit to run the company (Company A:2).

The current Chair noted:

we have a board which has four Execs and four NEDs and of those four NEDs there are two family NEDs… the family NEDs in our view have to be… from a business point of view… really as good as the non-family NEDs because from a family viewpoint you have a business being run and it's all about how you govern the business (Company A:3).

In the context of Company A's governance arrangements, family representation on the Board through the family NED role is legitimised in the Charter and addresses aspects of all four relationship dimensions noted above, which makes clear their role in relation to the company executive and the family shareholders. They are a vital link between the family and the company. The two family NEDs sit on the Family Council and update it on what is happening in the business. Their role is effectively to monitor and, where necessary, exercise control on behalf of the family. As stated, this reflects the agency imperatives of the board role, the family NEDs exercising a role addressing both horizontal and vertical issues.

In addition to the contractual governance arrangements there are relational governance arrangements established under the Charter. The Charter is of importance because it seeks to outline the influence of the family over specific contractual governance activities, and in doing so, makes use of the Family Council as an adjunct to the company board. For the purposes of this inquiry, the effect of the Charter is to retain family power and influence over specific aspects of company decision making. In agency theory terms, the relational governance mechanisms created through the Charter enable the family to continue to exercise power and influence over specific aspects of decision management and decision control.

The over-arching governance relationship is different to non-family companies because of the role of the Family Council in certain areas of decision-making. The family have argued that:

what we have actually done in the process [of Charter construction] is basically codified the family structure and actually… if you did it as a Venn diagram before there was a circle for the business and a circle for the family and quite a bit of overlap and what we have now done… is move the circles apart so the family affairs and the business affairs are actually largely distinct (Company A:2).

Despite the assertions, this analysis would argue that this is not the effect of the Charter. The Charter has actually allowed the family to retain rather than relinquish family power and influence in areas such as nominations and rewards. Further, the family sets clear parameters within which strategic decision making must take place through the Shareholder Letter, which is issued by the Family Council. In governance codes and regulations, these areas of decision-making are expected to be the sole responsibility of the company board, but under the Charter provisions non-board family members play a role. The decision making participants can be represented as follows, the point being that both the board and the Family Council are involved in certain areas of decision making:

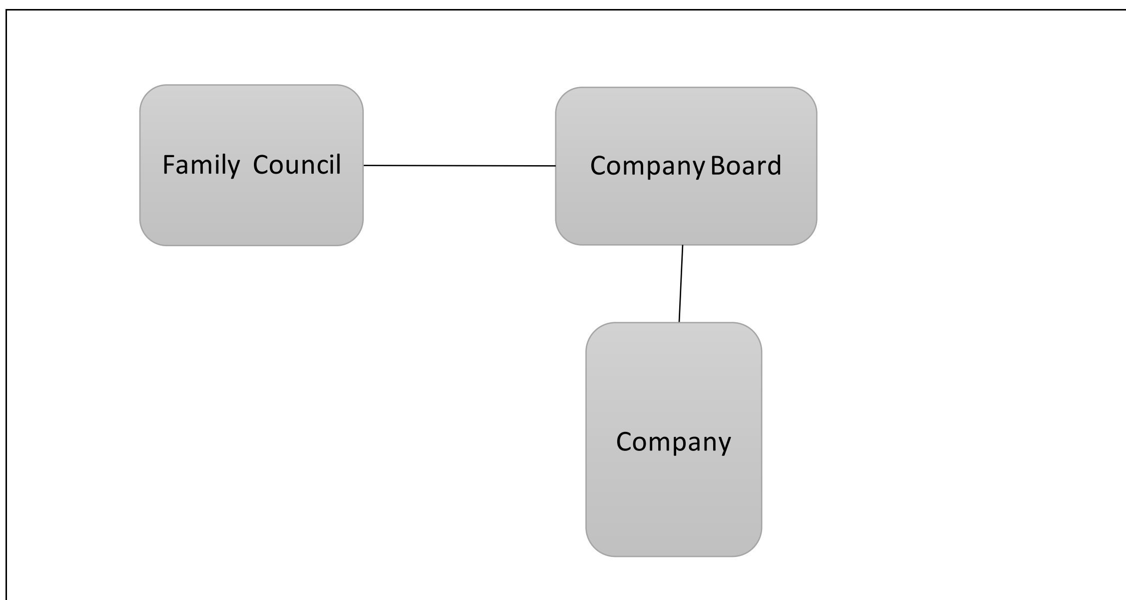

Figure 7: Company A: Relationship with Family Council

The formal relationship between the Family Council and the company board is set out in the Charter. The more important provisions provide for the following:

a) The mandate regarding what the family wants from the board is provided through a periodic letter, known as the Shareholder Letter written by the Family Council. The Charter provides a process for the amendment of the letter involving Family Council member and board members leading ultimately to its ratification by the family shareholders;

b) 'regular' dialogue is expected between the Family Council Chair and the Chair of the board. These are separate positions; the current Chair of the Family Council was a former family NED on the company board. It was noted by the current Chair of the board that: *"he has a dialogue with me but he doesn't get involved in the business side,*

that's through the NEDs, so he's mainly involved in… the family… which is like organising Assemblies, Next Gen…" (Company A:3);

c) There are also provisions for regular dialogue between the Family Council and the board directly, the Charter providing for the possibility of the CEO and other board members addressing the Family Council and answering questions concerning the company;

d) Specific provisions relate to the role of the family NEDs in relation to the Family Council and the way in which family concerns will be taken back to the board;

e) The process for the selection of family NEDs is set out in detail, as is their role description. The family Council is responsible for proposing two family NEDs (they need not be family members) but their appointment is dependent upon acceptance by the board and approval by the shareholders in General Meeting. It is clear that the board has the ability to reject the proposed candidates and enter into dialogue with the Family Council regarding alternatives. The grounds for rejection are not noted but it is implicit that this will relate to competence and credibility. Family NEDs serve for a term of three years and can serve for up to four terms. New family NEDs have been appointed following the Charter implementation. The board Chair noted:

> *we asked people to apply for the job and… we had five or six applicants and we went through an interview process and the… person who chaired it was the non-family NED so in effect it was a joint decision… the family NEDs in effect… are put forward by the family, but then the board has to broadly agree that they are happy to have them on the board… (Company A:3).*

With respect to other senior appointments the Charter specifically notes that all decisions in relation to board appointments rests with the board, led by the Chair and subject to ratification by shareholders at the AGM, but sets out the family's expectation of input into the process for certain appointments. The Family Council Chair and the two family NEDs will be involved in the committee established to select a new Chair and the Family Council will have an opportunity to meet any candidates prior to appointment. For the CEO and non-family NEDs, the nomination committee will include the Family Council Chair and one family NED but the Family Council as a

whole will meet successful candidates only as part of the induction process. There is no involvement in the appointment of other executive board members;

f) The Charter provides that appraisal of the Chair and the family NEDs involves both board and Family Council input. There was no evidence that this provision had been implemented;

g) The remuneration committee membership is set out in the Charter and in addition to being chaired by a non-family NED will consist of a family NED and a 'suitably skilled' family shareholder. The Chair and CEO may attend from time-to-time, but the current Chair has voluntarily excluded himself from the committee on grounds of conflict of interest. The inclusion of the family shareholder is a significant control and monitoring measure on the part of the family and reflects the sensitivity noted below in this analysis in determining the balance of rewards between the family and non-family managers. This is strengthened through a provision requiring the remuneration committee to report annually to the Council; and

h) The audit and risk committee and the CSR committee have similar reporting obligations to the Council. In the case of the former, it is expected that a family NED will take part in the committee whilst in the case of the latter it is suggested that the committee could include a 'suitably skilled' family shareholder.

Points g) and h) are of interest because of the direct reporting obligation the three committees have to the Family Council. In the case of the remuneration and audit committees the reporting line is through the family NEDs.

In creating these lines of communication, the family, through the Charter, has signalled those aspects of the business it wishes to have power and influence over and how that power and influence will be exercised. It reflects, in part, the absence of family members in the day-to-day management of the company and the monitoring and control functions embedded in both the contractual and the relational governance mechanisms. The Charter, therefore, is addressing agency issues arising from the separation of the family from control through management and the board. The mischief being addressed by this is the fear of a powerful Chair*: "the family's always a bit scared of an over-powerful CEO running away with both salary and the firm" (Company A:1).*

As a result of the governance arrangements established, the divide between the contractual and relational governance arrangements are not as clear as expected from the family rhetoric. Nor do they reflect Suess' (2014) propositions. In particular, the direct reporting function at the committee level makes all committee members accountable to both the Family Council as well as the board. Such dual accountability is not necessarily expected given the family's overt wish to separate the business and the family. It is also not contemplated in the private company governance regulatory structure.

The role of the Family Council is hugely significant. The Charter notes*:*

> *the purpose of the family shareholder council is to sit between [the company] and the family shareholders; to assist [the company] in communicating with the family shareholders and to assist the family shareholders in communicating with the company (Family Charter provision 2.3.3).*

The Family Council is the vehicle, therefore, through which communication takes place. Matters raised by the company are transmitted to shareholders via the Family Council and shareholder concerns are similarly channelled to the company via the Family Council. Based on the analysis of its powers, this researcher would note that it is more than a communication vehicle and plays an active role in specific areas of decision making over which the family consciously wishes to maintain family voice.

The Family Council is made up of five shareholders nominated by the five 2007 ordinary shareholder group (one from each group) and one from the non-2007 shareholders. The latter is elected via a first-past-the-post system with each share carrying one vote. Shareholders sit for a term of four years and can sit for three consecutive terms. A Chair is selected from the Family Council and this person must not be on the company board. A recent innovation noted by the sixth generation employee when interviewed is that Next Gen representatives from each of the 2007 shareholder group will be invited to attend the Family Council. Underneath the Family Council sits the family action group whose primary function is to facilitate family harmony and unity. A particular task of the action group is to organise the family shareholder assembly previously referred to.

The analysis of Company A highlights how relational governance mechanisms can be sources of episodic powers enabling family members to exercise power and influence over specific aspects of company decision making. In contrast to existing theory, which suggests that

physical control of management and the board is necessary to retain power and influence, the analysis has shown the need for a more sophisticated understanding of the inter-play of contractual and relational governance. In particular, the Charter makes clear those areas of decision making where the board must work collaboratively with the Council or individual family members. Family power and influence is not limited to those family members who have places on the board.

6.5.2 Company B Governance Arrangements

The Board governance arrangements in Company B have changed during the course of the fourth generation family member's control of the company. This reflects the conditional and contextual nature of board role and composition in family companies and highlights a limitation of existing theories that adopt too static a view of board roles and composition. Company B's board composition has been both a response to the external environment and a vehicle for developing support from external organisations or individuals (Pfeffer 1972).

Four phases are evident. During the first phase the fourth generation family member was actively involved as Chair and MD. In the second phase, the family member adopted a shadow role and devolved all board functions to other family members, non-family executives and a non-family NED. In the third phase, a fifth generation family member joined the subsidiary board and in the final phase, the subsidiary company was dissolved and the fourth generation father and one fifth generation son joined together to form the main board.

The major issue faced by the fourth generation Chair when he inherited the company was his lack of business experience. It is a feature of the company's governance arrangements that this family member has used external and internal non-family members over time to support the strategic and operational development of the company. In some cases, those providing support have had board roles but this has not always been the case. When first taking over the company the fourth generation owner made two board appointments; first, a long-serving employee; and secondly, a friend, who he described as a 'street fighter'. The internal board member was an experienced employee who provided operational support while the non-executive director was specifically appointed to help the family member manage external relationships, particularly with those providing professional services. The family member tells a story of a period when the company over-traded and was technically insolvent. The forceful intervention of the external non-executive director led to the bank's support and the ultimate survival of the company:

he knew how to say ‘no’ and I’ve had a couple of times when you think you are in an impossible situation and he just said ‘No… we’re not doing it’ and everyone says ‘but you’ve got to’ and he says ‘No… we’re not doing it… just think how we are going to sort it out’… I needed him and he was vital to my business (Company B:1).

The role of the non-executive director was described as follows:

“the role was very much based on the financial side of the business; planning the finances, negotiating with the VAT people, talking to the banks and sort of holding the purse strings…we had a lot of refurbishment work to do and we were also latterly looking to buy other businesses” (Company B:3)

The internal executive director was fired by the fourth generation family member in the 1990s but the external non-executive director continued as a member of the holding company board until 2009. He had first been appointed in 1972.

During the second phase, the fourth generation family member retired from his formal board position, created a holding company/subsidiary board structure, appointed the external non-executive director, his spouse and, for a period, a fifth generation son to the holding company board and created a subsidiary board occupied wholly by non-family members. One non-family member took on the role of MD. The structure was as follows:

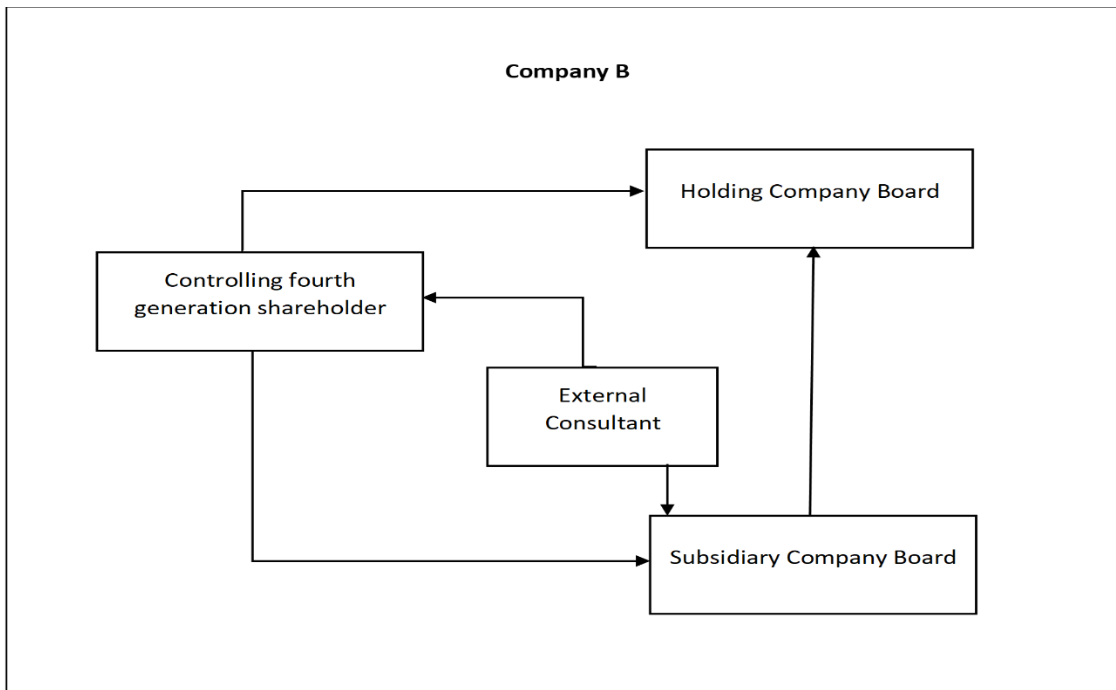

Figure 8: Governance Structure in Company B

Given the concentration of power and control in the hands of the fourth generation family member there were no relational governance mechanisms in place as his personal authority was sufficient to exercise power and influence over all areas of company decision making even though he held no formal board role. As previously highlighted, the key feature of this company was the contraction of ownership at the fourth generation stage, which placed the fourth generation owner in the position of a first generation founder. This family member noted his appreciation for the actions of the third generation as this meant he had *"no shareholders looking over you".*

This structure persisted until 2008, when the fifth generation son joined the subsidiary board. At the time of the sale of the trading operations, the company had a subsidiary board composed of full-time executive directors, one of whom was a fifth generation family member. With the exception of the family member, the directors of the subsidiary board were long-serving full-time employees and the day-to-day operations were led by the non-family MD:

> *the staff respected [X – the non-family MD] very much, who was the managing director, and it was quite clear that he was running the firm… I was brought out on high days and holidays… at annual conferences I'd be the one giving the prizes out and giving everyone kisses and hugs and all that sort of thing… I would go round and I*

would complain to [X – non-family MD] when I came back that this wasn't right or that wasn't right but my job was to be good with morale and that type of thing (Company B:1).

The two major aspects of the fourth generation's role related to promoting the notion of the family firm and setting and monitoring performance standards. The first matter will be discussed in section 6.9.2 below. The fifth generation son noted the monitoring and control role his father played. Reflecting vertical agency concerns, the father set strict standards and KPIs and the father's mantra was, "*it's not what you expect it's what you inspect*" (Company B:2). This included the regular physical inspection of branches throughout the company's network.

As with Company A and until the fifth generation family member joined the board, it can be seen that the fourth generation's power was exercised through informal means. No family member was involved in management or the subsidiary board. Further, the holding company board was a legal device exercising no power over decision making. In the context of management and board composition, the FIBER, F-PEC and FIFS scale cannot explain the exercise of family power in relation to Company B during this period as the family was effectively absent. It is only through understanding the interaction of contractual and informal relational governance that the actual disposition of power can be understood.

It is a feature of Company B that the various boards created were not the only sources of support and guidance the fourth generation family member drew on. For more than 30 years the fourth generation owner engaged an external advisor. Although the initial purpose of the relationship was to bring marketing expertise to the company, over time the individual took on a shadow NED role and had particular responsibility for strategy and board mentorship.

"So at that stage…it was never really formalised, but I sort of became a non-executive director. And so I used to, every other month, every six weeks, come up for meetings…I was monitoring the figures, I used to get all the week by week figures, I used to keep an eye on things from a distance and then I came up…to attend board meetings" (Company B:3)

This focus of the work of this advisor was to lead the strategic discussion and development of the company and advise the fourth generation owner accordingly.

"my role for the last…fifteen years…I was very much part of the senior team that looked at the strategy….I was using my retail knowledge, retail and marketing skills with the context of the…business….[the fourth generation Chair] didn't come to the strategy sessions that I ran but he got all the literature that we created at the end of them. He knew very much what we had done, what we had talked about… he could be part of that debate at a subsequent board meeting but he didn't come and sit for three days wondering about what to do and where to go to and how to do it" (Company B:3)

The power literature above noted the power attaching to the role of the Chair but it can be seen in the case of Company B how such power was exercised by the fourth generation shareholder in, effectively, an informal, shadow role. The absolute authority of the fourth generation shareholder was based on his majority ownership of the share capital. Unlike a first generation controlling owner, however, this individual was, after a time, not involved in the day to day management of the company.

Chapters 2 and 3 have noted the regulatory and theoretical positioning of the board as the ultimate source of power and authority. It has been discussed, too, how in conceptualising family power, the familiness literature has identified the family's dominance of the board as a major source of power. Company B is an example of how the role and scope of the board in a family company setting can be subject to the informal personal power and influence of a family member exercised in and around the company. Both the holding board and the subsidiary board in Company B were subject to the power of the fourth generation family member. It is recognised that this is an extreme case for despite Company B being a multi-generation family company the fourth generation family member had absolute power through his shareholding. The case study, however, is an example where the personal authority of individual family members may restrict the powers formally vested in the board. This will be discussed further in relation to both Company A and C.

6.5.3 Company C Governance Arrangements

Company C is owned by two unrelated family groupings, the allocation of 52%/48% of the issued share capital between the two groupings going back to the formation of the company.

In Company C the governance structure is as follows:

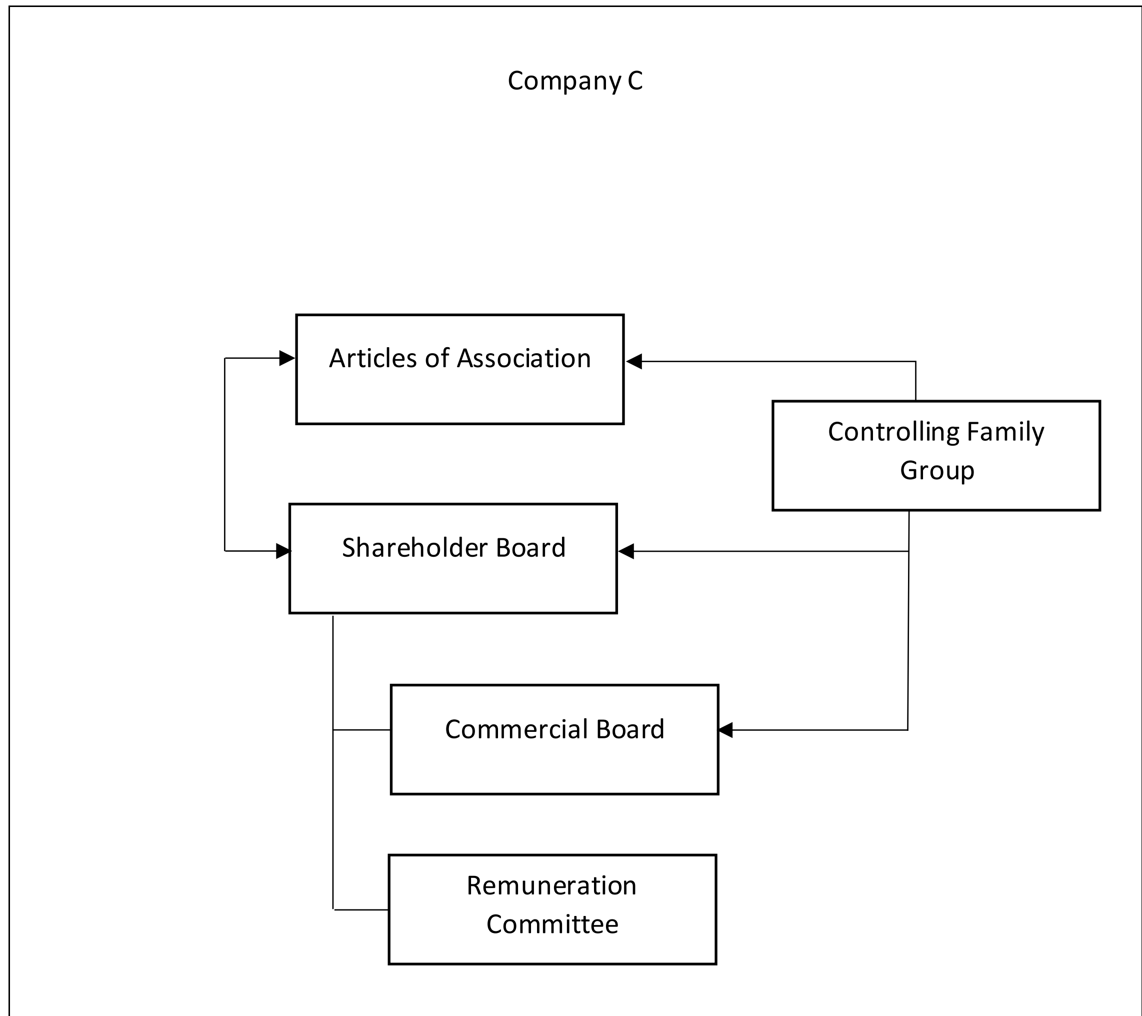

Figure 9: Governance Structures in Company C

Traditionally four Shareholder Board seats have been held by family shareholders or their representatives, one of whom is the Chair:

> *we have members of both families… two families own the company… they are both represented… two on each side (Company C:1).*

In June 2019, the sixth generation non-shareholding employee was appointed to the board as an executive member, bringing family representation up to five.

One of the family NEDs from the majority family is not a shareholder:

> *I'm an independent director of the board… my connection is through my wife actually… I represent my mother-in-law's interests in the company… and I represent her interests and the interests of a couple of others who are also shareholders of the company (Company C:3).*

The position of the family board members in Company C, however, is different to that of Company A. In Company A the detailed relational governance arrangements set out in the Charter have created a system that provides for the selection of family board representatives, sets out the decision making processes in specific areas, such as appointments and remuneration, has clarified the family's strategic objectives, and provides a broad framework to enable the family to monitor and control the board on behalf of the family as a whole. Such a framework does not exist in Company C and family and company matters are dealt with through individual interactions. In this company, the informal personal authority of family members is key to understanding the exercise of power and influence by the family in relation to company decision making.

Despite the complexities created by a multi-family multi-generational shareholding body, no relational governance structures exist to enable either family to formulate and communicate family objectives. The non-shareholding majority family non-executive director is professionally involved in financial regulation and is fully aware of the UK corporate governance framework for public companies. Not surprisingly, he defined his role on the board first in the context of the commonly regarded imperatives of public company governance but then went on to set out what his family role was:

> *as I said, I'm truly independent, I've got no shares and I'm paid very little… I'm all for the glory in all of this… my primary objective is making sure that this is a sound and safe company for the generations to come whoever are the shareholders… then as my secondary objective, if there is a conflict of interests, where the interests of different shareholders are compromised or are conflicting then I would say that my second objective would be to make sure that the interests of the class of shareholders that I represent are adequately heard and the concerns voiced properly at the board (Company C:3).*

The latter part of this statement reflects a concern with horizontal agency issues. It is clear, however, that this non-executive director sees his role to be in relation to the interests of the shareholders he believes he represents, not family shareholders as a whole. There are no formal or informal mechanisms that bring the families together to develop relationships or form a common opinion as to the strategic direction of the company. The Chair takes the view that all shareholders, other than those directly involved in the governance of the company, are

primarily interested in the dividend. When asked about the type of interactions across the family, the majority family non-shareholding NED noted:

> *there has not been a lot of interaction so far over the past three years with the company doing very well… consecutive profit years and the dividend has been very good… for the type of shareholders that I've got, who are all approaching retirement and looking for stable incomes in the future… that is their first priority so they are quite risk adverse in their needs… so as expected some of the conversation has been more around predictability and stability of the dividend more than details along the lines of credit or the financing of strategic acquisitions (Company C:3).*

Commenting on the need for more formal protocols for shareholder dialogue, he went on to add:

> *I don't think we've come across the need to put more formal structures or processes in place… the shareholders will happily pick up the pen and then write to the Chairman straight away if they thought there was something that needed further enforcement (Company C:3).*

There are no formal arrangements in place regarding the appointment of family non-executive directors. The need for their appointment arises from the insistence from parts of each family to have board representation to carry out monitoring and control functions. These may be regarded as addressing both vertical and horizontal agency issues in relation to both the company and the family. This is particularly the case for the family owning the largest block of shares:

> *when one of our members died – sorry resigned, one died and the daughter resigned – the daughter was put on the board because she was the daughter of the family and didn't really understand the business and then when she went she put pressure on her family to… be represented… and put on a chap who really hasn't got experience in our sort of business… so it didn't really fill a gap, it filled a need from the family point of view, but not a gap (Company C:1).*

From a power and influence perspective, it is important to note the location of strategic decision making. In Company A, it was seen that strategic decision making was located at the board level, but the family set out the broad decision making parameters through the periodic

Shareholder Letter. In Company B, although the subsidiary board formulated strategy the fourth generation shareholder retained overall control as controlling owner. In Company C, the position is very different. The family leaders have created a sub-board structure to separate the operational/strategic decision-making from the main board.

In Figure 9 above the main board is referred to as the Shareholder Board but a second board, the Commercial Board has been created below the Shareholder Board:

> *somebody recommended to me about fifteen years ago that it would be an idea to set up a subsidiary board called the Commercial Board which only consisted of people who were really involved in the business. Because I was running it, Chair of it, I invited the most active member of the other family so they didn't feel their nose was out of joint and that's how we run it now, really the business is run through the Commercial Board underneath the Shareholder Board (Company C:1).*

Family power and influence in Company C has two aspects to it:

a) First, there are specific areas where non-family members take the lead and others where the family voice remains the dominant, overriding voice in the decision making process;
b) Secondly, in the absence of relational governance mechanisms the notion of a family 'voice' requires a nuanced explanation.

As to a), the current non-family MD was quite clear that strategic decision making is located with the executive management team and not the Shareholder Board:

> *the core of strategic decision making and the strategic planning actually takes place within the Executive, with challenge at the Commercial Board... where the more critical elements of the strategy are taken apart, dissected and challenged (Company C:4).*

The team of four who created the current medium-term strategy included the sixth generation family senior manager but the non-family current MD was adamant that the strategy was based on the medium to long-term needs of the business and took no account of family-centred non-economic goals. The sixth generation family member took part because of his management expertise and the expectation that he will ultimately take over the MD position.

The board structure created by the Chair could be said to be more akin to the German board model of the Aufsichtsrat and the Vorstand, with Company C's main board preforming a mainly supervisory rather than strategic role on behalf of the two families. This emphasises the monitoring and control responsibilities of the main Shareholder Board addressing vertical and horizontal agency concerns but its scope and role is less that that envisaged in the governance regulations. This board does not have ultimate authority over all areas of company decision making. It is significant that only the Chair and Vice Chair of the Shareholder Board, the two family leaders, also sit on the Commercial Board. There is clear distance between those making strategic and operational commercial decisions and the Shareholder Board members. There is nothing in this to reflect a family voice in the strategic decision making, other than that of the Chair or the Vice Chair. The presence of the Chair and Vice Chair on both the Commercial and the Shareholder Board, however, reflects the potential power of the family to intervene if necessary.

The Shareholder Board's functions are limited, therefore, and relate to the appointment of auditors, capital investment approval, approving dividends, and approving the appointment of directors and of key senior executives.

Despite the board structures, however, the family specifically reserves decision management and control power in three areas: remuneration; board appointments; and dividends.

With respect to remuneration, the formal decision-making is carried out through a board sub-committee consisting of the Chair (family member), Vice-Chair (family member) and an external consultant. Board nominations and the dividend setting process are less formal. In both cases, these are decisions made by the Chair with the agreement of the Vice Chair. These decisions are made outside of the Shareholder Board but formally ratified by the Shareholder Board.

The Chair expressed concern that the current governance arrangements in place were no longer appropriate for the needs of the company. In relation to board structure he noted:

> *we are a family business with a Shareholder Board which is… not very helpful in the scheme of things because you need to have people close to the business on the board… we do it completely the wrong way round (Company C:1).*

This anticipates a main board that is capable of performing a range of activities beyond monitoring and control on behalf of the two families. In particular, the potential for the board to bring in external expertise to add value to the company's strategic planning was highlighted. The Chair noted:

> *the right way to do it is to have maybe a representative of the family on the board but the vast majority should be NEDs from outside who fill the gaps that you can't provide yourself (Company C:1).*

This reflects a resource-based board perspective. He added:

> *I'm sure we should have a family council… I'm sure we should try to keep the family engaged without being involved because… [they] don't know the business (Company C:1).*

This point brings into focus point b) above. The notion of the family in Company C is complicated by the fact that this is a multi-family company, with one family grouping being regarded as the managing family and the other the investing family. Three statements are made regarding the notion of family:

a) First, although a distinction is made between the two different families the reality is that most family shareholders are in the same position as they are not involved in either management or governance;
b) Secondly, only a small number of individuals from each family are engaged in either management or governance; and
c) Thirdly, family members engaged with the company play different roles and exercise different levels of power and influence.

The non-involved nature of the majority of shareholders was part of the dialogue of both family and non-family members in the company. The current Chair noted shareholder communication was through regular letters setting out the accounts and dividend position. The family representative non-executive director was of the view that current family governance arrangements were appropriate and that the individuals were empowered to approach the Chair directly. The non-family MD was more succinct. When commenting on the nature of the shareholders he remarked that they were "*close to passive… in many… probably*

passive in the majority of cases" (Company C:4). The focus for these shareholders is around the dividend, and in particular, the predictability and stability of the dividend payment.

As noted, the Shareholder Board has five family representatives, including the Chair and Vice-Chair. Family Board members address both vertical and horizontal agency issues as part of their role, although in the absence of family protocols or a Charter, the actual role played by these representatives on behalf of the family in general is not clear. As noted, they represent parts of the family but in the absence of any relational mechanisms it would seem they represent themselves first and then, indirectly, the interests of other family members where such interests align. The views of the investing family non-shareholding NED have been quoted above.

Board representation reflects dynastic influences and family individuals or groups of shareholders seemingly have more power and influence than others. These reflect horizontal agency concerns. The comment of respondent C:3 in relation to a 'class of shareholders' quoted above raises the question whether the concerns of the group he feels he represents are those of the wider family shareholders. The dynastic influence is also reflected in the case of the Chair and Vice Chair, who are the leaders of each of the family groupings. The Chair, as former MD, played the traditional role for his family branch in acting as the company leader. His reluctance to do so and the reasons for him taking over his father's position are referred to below. He and the Vice-Chair leader of the investing family share positions on the Shareholder Board and the Commercial Board and work together to manage their respective families:

> *He looks after his lot… I say 'go sort your lot out and I'll go sort my lot out' and the two of us are on the board… and fortunately we are of like mind* (Company C:1).

The disposition of power and influence in Company C further challenges the conceptions underpinning family power and influence through management and board involvement as set out in the FIBER, F-Pec and FIFS scales. In this case, for example, strategic decision making is not within the scope of the board, but is located with the executive management team and overseen by the Commercial Board. The majority involved in strategic decision making are not family members. Similarly, in specific areas of decision making, even though the Shareholder Board has a majority of family members, the informal relational power held by the two family leaders is critical when it comes to rewards, appointments and dividends. The board may ratify but both decision management and control reside in the two family leaders.

The engagement of the family is limited and contrary to the expectations set out in the F-PEC, FIFS and FIBER scales. The need for a more nuanced approach to analysing the disposition of family power beyond the provisions of these scales is emphasised as is the potential for relational governance mechanisms to be sources of episodic power.

6.6 Decision Making

The analysis above has shown that decision management and decision control may reside elsewhere other than in management and the board. In all three cases, the family has retained power and influence over both decision management and decision control over certain areas of decision making through different governance arrangements. These areas are not the same in every company and reflect the concerns and priorities of the family leadership group. The governance mechanisms are both contractual and relational mechanisms.

A question arises regarding the extent to which company decisions favour the family. The literature review noted alternative views on the impact of family altruism. While the stewardship literature has noted the potential for altruism to bring benefits to the company (Eddleston and Kellermanns 2007) the agency literature has referenced the 'dark side' of altruism. In particular, the potential for moral hazard, hold up and adverse selection resulting in free riding, shirking and unearned or excessive rewards have been highlighted (Lubatkin, Schulze et al 2005).

Further, the socioemotional wealth model is based on decision behaviours of family owned companies and argues that such companies will be loss averse in relation to family endowments, which include the ability of the company to give preference to family centred non-economic benefits.

These issues are reflected in the FIBER scale as follows:

Emotion and sentiment often affect decision making processes in my family business
Protecting the welfare of family members is critical to us, apart from personal contributions to the business
In my family business, effective considerations are often as important as economic considerations

Table 14: Socioemotional wealth FIBER scale: Berrone, Cruz et al 2012

A major expression of altruism is the employment of family members and provision of preferential access to corporate status and rewards. This analysis has noted that few family members in all three companies are involved in either management or the board. This is despite the conceptions of family power noted in chapter 3. The analysis highlights that altruism is not a common motive present in the decision making in any of these companies at this stage in their life cycle. All three case studies challenge the notion that emotion, sentiment and affective considerations drive decision making. Rather, economic rationalism is the main concern of those making company decisions. There is a two sided notion to the impact of governance structures and family decision making. It has been shown in the preceding analysis how family leaders may use formal and informal governance mechanisms to exercise power and influence over areas of decision making they wish to have power and influence over. At the same time, the following analysis will demonstrate how the governance mechanisms can support the family leadership group to restrict the provision of non-economic benefits by the company.

6.6.1 Company A

In Company A, the fourth generation former Chair made the point on non-economic family benefits very simply when he reflected on his actions on taking control of the business:

> *when I first came in there were quite a large number of useless uncles and other members… all of whom were drains on the company… and we got rid of those and became much more professional… you have got to see that those who are in it are worthy of being in it (Company A:1).*

The concept of professionalism was used by this respondent to compare family companies that placed the welfare of family members first with those that were run on commercial grounds. Professionalism reflected the latter position. This narrative was shared with the fifth generation family members and was stressed constantly during interviews. All three commented on the need to restrict family involvement on the basis of merit and the 'useless uncle' concept was part of a common narrative:

> *we're not trying to populate this business with dozens of useless uncles (Company A:2).*

do you just want a money-making machine or do you want a family business… now, if it's a family business you want, then you've got to see that those who are in it are worthy of being in it (Company A:1).

and that applies to every business decision we make virtually, it's about what is right for the business… and that's understood by the directors, by the employees and by the family (Company A:3).

to be clear, the business is not run for the family, the business is run for the business… that's absolutely critical so as a board or as a family, every decision you make is right for the business (Company A:3).

The view outlined by the three family members directly challenges the socioemotional wealth propositions regarding family centred non-economic benefits, and in particular, the welfare benefits arising through employment.

The company has a next generation project, which includes the opportunity for family members to compete for a place on a graduate trainee scheme. One family member interviewed as part of this research has a place on the scheme. In the context of family employment, the fourth generation former chair expressed his support for the scheme on the basis that

the nice thing about this easy slow access scheme is that we can actually discover how good they are and then if they are no good after two years we can take a decision which is probably mutual by the time we've finished (Company A:1).

The sixth generation family member on the scheme noted:

The programme I'm on isn't actually just a family programme. It's a graduate scheme that they've launched (Company A:5)

The perceptions of a shareholder not involved in either management or governance reflected the narrative of those family members leading the company. She noted:

We are obviously conscious that there is a bit of a generational gap…which I imagine is an issue with all family companies…who takes the helm when the last person who is critically involved is heading towards retirement?...so…they are very keen on

encouraging the younger generation to think about working in the company. They offer work experience and all that kind of thing…but they have to work their way up, they are not just going to pop out of university and suddenly be made Chairman (Company A:4)

…so I think they are very open wanting family members to come in and to be involved in the company but you have to find your niche and its quite hard (Company A:4)

A number of factors drive this shared narrative, a significant one being the dependence the family has on non-family managers to run the business. This is not a recent issue as the company has been open to the engagement of senior non-family managers throughout its history. The recruitment and retention of such talent is seen as being put at risk where family members are privileged over non-family members.

It is noted that the relational governance mechanisms play a significant role in managing the way in which family members may engage with the company. The Shareholder Letter issued by the Family Council makes reference to the potential for family members to be employed but the discussion above has noted that this will be on merit. The Next Gen project is an example of how the family has sought to develop the family management pool. The Charter sets out, too, the ways in which family members can engage with the company as non-executive directors or as members of the Family Council. The effect of the Charter has been to set out transparent processes by which family shareholders and members may find employment with the company or become involved in company and family governance processes. In doing so this relational mechanism has managed expectations and addressed agency issues arising in relation to who and how family shareholders become involved with the company.

6.6.2 Company B

Company B has never had a large pool of family talent to call upon to manage the company. At the fourth generation stage there was only one individual with an interest in the company and at the fifth generation, only two, his sons. Until 2008, neither of the sons were involved in the business. As with Company A, the involvement of the fifth generation son was conditional upon his ability to contribute to the company. Talking about himself and his brother he noted:

My father… always said this to both of us: 'Do something else, come to the business if you're interested when you've got skills', but he was never keen for us to walk straight in (Company B:2).

This fifth generation member joined the company after a successful career in management consultancy. He joined following a failed attempt to sell the trading operating of the business:

my father had kind of removed himself away and the business was looking like, having looked relatively valuable, it was now in a position where it probably de-valued itself due to the bad feeling in the company towards the fact it was going to be sold and then it wasn't (Company B:2).

As with Company A, there has been a willingness for the company to engage non-family senior managers. This was initially out of necessity. The fourth generation family member took on the company as the sole involved family member. He was alone following the unexpected death of his father, who had left the RAF to help run the business. At that time, an aunt had led the family company. On taking over, he found himself in charge but with little experience. He was open about the reliance placed on an existing long-term employee and on an experienced friend who joined him as a non-executive director.

but I really hadn't got any business experience and I hadn't got a father to explain things or anybody who was older than me to tell me what to do… there was a bloke called [name] who was ten years older than me and who I relied on heavily… I… looked on him as a sort of father figure but I had a friend of mine who was a banker, he'd been with [London based financial services provider]… he was an external director… he was good because he was a street fighter, he was my age, but he was quite different to me (Company B:1).

Over a period of time, as noted above, the corporate structure changed with the addition of a subsidiary company through which the business was managed. This consisted of a group of non-family directors, including a non-family MD.

I semi-retired when I was 50…. I was… Chair for 20-odd years… what it made me do was stand back and we then had these people who had been with the firm… I chose one person who had been with the firm a long time and three others who I thought

were the right people and that team, which [X - fifth generation son] latterly joined ran the company for 20 years (Company B:1).

The concentration of the company in the hands of one family member left the company vulnerable as it was dependent on the future engagement of the fifth generation sons. Neither son was particularly interested in the company.

I'd rather assumed that our eldest son… might have taken over but he wasn't interested (Company B:1).

When asked if he ever intended joining the company the youngest son said, '*not initially…no*'. He eventually joined the company at a time when he was working for a consultancy firm. He initially negotiated a 12-month sabbatical, which was further extended, before he finally took a full-time position.

I started working in the business and actually really enjoyed it. I enjoyed working with the directors, enjoyed the culture and the company, and the lifestyle out of work as well… as much as we enjoyed London it wasn't likely with a young family that it was going to appeal to go back anyway (Company B:2).

The fourth generation father reflected on his son joining in the following terms*:*

he came and joined, which I was very pleased about, and it meant from my point of view that I could keep the firm going until a suitable time came to sell (Company B:1).

The son joined the board and took a particular role in the strategic development of the company, leading on the acquisition of new branches and the provision of new services. The major role he played was in ensuring the business was re-built after a fall in turnover. He noted how he had been readily accepted on joining the firm but reflected that his arrival may have signalled to a very loyal work force a change in the intentions of the company*:*

the directors and staff all welcomed me with open arms… possibly because they felt that this wonderful business that they loved was about to be taken over and merged into a different business and all the uncertainty that comes with it and then all of a sudden it's not and I am coming in… they embraced me into the team quickly (Company B:2).

The son did occupy a privileged position as a family member in a number of ways. First, he noted when he joined the company the senior management team was already top-heavy and needed larger sales to support it. The decision to employ him was made solely by the father. Secondly, the medium-term strategic intentions were a matter for the family only and the non-family members were excluded from strategic discussions. When discussing the sale of the trading operations he noted, *"it was very hard breaking it to them [the directors]… I broke the news to them a week before the rest of the staff and that was very hard because it was such a close-knit family" (Company B:2).* This transaction remained a matter for the family only.

What is of interest is the fact that this company sold its trading operations at a time when both the fourth generation father and the fifth generation son were engaged in the company, the company then becoming a property and investment management company. In the context of the FIBER scale referred to above, the company had passed through the generations but there came a point in time when the family was prepared to sell its trading operations. This decision was similar to the decision made by company A to sell its main commodity trading operations in 2005 and re-invest the proceeds of sale in manufacturing. The point is that both company A and B were driven primarily by financial considerations.

In the case of company B the fourth generation shareholder faced a dilemma linked to the future funding of the pension scheme operated by the company. The company ran three schemes: a defined benefit scheme, which closed to new staff in September 2003; a defined contribution scheme; and a self-administered scheme. The decision made by the fourth generation shareholder to address the penison funding problem was to sell the trading operations. This had not been achieved when the fifth generation son joined the company and the family continued to grow the business through branch creation and acquisition and investment into new areas of activity. The growing liabilities attaching to the pension funds, however, continued to over-shadow the financial viability of the company.

The long term advisor summed up the position:

> *…you might ask why the business wasn't more profitable…we had a legacy of a final salary pension scheme which meant there was actually an ageing population of workers within the business who were still entitled to the rather large pensions and the scheme was underfunded…when you look at the business…it was highly successful, generated fantastic returns on its assets but…it had issues that were largely to do with pension legislation…to get out of*

that hole we would have had to really fire on all cylinders for many many years to fully pay up that pension fund(Company B:3)

There was no suggestion that the fifth generation son considered any alternative path to the funding solution pursued by his father. At the heart of this may be a lack of emotional commitment to the company:

> *whilst I always loved the sentimental side… 'Wow, this is a lovely old family business'… I think others place a much higher importance on that than I probably did… it almost meant more to many other people in the business* (Company B:2).

The eventual disposal of the trading operations was regarded as an achievement by both the father and son despite the impact on fellow directors and employees:

> *to me it was a no brainer and of course the worst thing was the disappointment of the staff and that was… I remember them all coming and all crying… and it is very sad but it had to be done* (Company B:1).

> *when we sold the business, it was a very sad day in many ways but it was also, from a management perspective… a big relief and I couldn't really celebrate outside but internally it was a day of celebration because we had achieved something… but it felt like a funeral announcing it* (Company B:2).

Ultimately, business considerations linked to future pension liabilities dominated the strategic decision making, which was posited on an eventual exit through disposal of the trading operations.

Chapter 3 discussed the potential issues arising through trans-generational succession relating to the relationship between the family and the company. In particular, issues of identity and belonging were remarked upon. The elements of the FIBER scale refer to the emotional and affective considerations attaching to family companies. This positions the company as an important family asset within and around which the family operates. The analysis of the attitudes of both the fourth and fifth generation family members involved in company B fails to reflect such emotional or affective considerations. This is so even though there has been no shareholder diffusion. The analysis suggests a family company regarded as more of an economic family investment than a precioulsy regarded asset around which family belonging and identity was founded. The view supports that of Cruz and Arrendondo (2016) that the

different components of the FIBER dimensions will evolve over time and that company behaviours might be driven by the predominant FIBER dimensions.

6.6.3 Company C

For Company C, a lack of a family talent pool has forced it to engage non-family senior managers to keep the business going. This position is not new. The current Chair and former MD of Company C was reported in a press interview saying:

> *I was determined when I was at school that I would have nothing to do with this business when I left… father got cancer. He was 63 and he was running the show. I realised that if I didn't come home then this place would go down. There was nobody to run it (Press article 14th March 2017)*

He was only joined by a sixth generation family member in 2016. As with Company A and B, the company had never been a source of employment for family members during the fifth generation's management. The sixth generation employee reported a conversation he listened to as a young boy where the MD set out conditions for him and his brothers to join the firm*:*

> *[X – fifth generation Chair] said… go off, go and do your thing, go off and earn your stripes, go and work hard and in a few years if you still want it and you've got some experience come back and we can see where that goes (Company C:2).*

This sixth generation member joined the company in 2016 after developing a successful career overseas. He returned to the UK and company after lengthy discussions with the family. He made it clear, however, that the notion of family was not in itself enough to bring him back into the company. Rather, he was excited by the dynamic nature of the firm and the commercial opportunities:

> *if not much was going on… same customers, same company that we were twenty years ago I might not even be here today because I had a good life in Australia, a good career going… we were happy… but we had the family pull factor and also this company… it is exciting times here and there's a lot more to come* (Company C:2).

Interestingly, having made the decision to join the firm, the notion of family is now present in his thinking.

> *if I can help grow this business and make the entire wider family more prosperous… that's exciting and makes it a lot more engaging than just working for myself and my kids* (Company C:2).

So, too, was his notion of generational involvement:

> *We're also talking about family and generations, I've got two sons… I'm by no means thinking of the seventh generation just yet but that is… if I make it to where I want to be in a big successful company… leading a big successful company… it obviously gives my two sons options down the line* (Company C:2).

The sixth generation employee is not a shareholder but did join the board in June 2019. It is clear that he and the current MD expect that he will take over the leadership of the company in due course. In the opinion of the sixth generation employee this is contingent upon worth:

> *my focus is really to earn the right to be respected, to just work hard, show people my skills, what I can do, how I can help grow the business… and to learn from [X- current MD]… I've got a great opportunity here but if I don't perform, if I'm not the right person to move it forward, it's not just a little family business, we're making big inroads globally and if I'm not up to scratch then I shouldn't be the next person* (Company C:2).

The lack of extensive family involvement in management in all three companies, given the number of potential participants, is striking, particularly in the case of Company A and C, and is contrary to the expectations reflected in the literature. From an agency perspective for example, the 'dimension of exchange' proposed by Fama and Jensen (1983) would not appear to be present but conditions giving rise to both horizontal and vertical agency issues are. Such agency issues exist between family and non-family members within the company as well as intra-family.

The place of altruism is also in question. Both the agency and stewardship literature discussed the place of altruism in the family business context, identifying it as potential source of both good and bad outcomes (Schultze et al. 2001; Lubatkin et al. 2005; Davis et al. 1997; Eddleston and Kellermanns 2007). As noted, the provision of family centered non-economic benefits is at the heart of the socioemotional wealth literature but these do not have a significant place in the decision making frameworks of any of these companies. Instead, the limited engagement

of family members in management/employment suggests that altruism, as expressed through employment, is not a significant imperative for any of these families.

Further, the lack of significant family involvement re-inforces the argument that management and board involvement is not the source of power and influence for family shareholders and attention must be focused on the relational governance mechanisms established. This challenges the expectations set out in the F-PEC and FIFS scales designed to measure family power and influence. Contrary to the conceptions of power referred to in both scales, the dominance of management and the board is not a means by which any of the families in the three case studies have retained power and influence over specific aspects of company decision making. This would suggest that the conception of power,as represented in the F-PEC and FIFS scales, is overly-simplistic and is insufficiently nuanced to reflect the reality of family relationships and interactions outside of the formal board and management structures that underpin the actual exercise of family power and influence. Instead of only concentrating on management and the board, the scales need to embrace formal and informal relational governance mechanisms if power and influence is to approrpiately explained.

Taking up the argument of Cruz and Arrendondo (2016), that the different components of the FIBER dimensions will evolve over time and that company behaviours might be driven by the predominant FIBER dimensions, this would suggest for all three case study companies financial imperatives, the desire to survive commercially, are of greater concern to the family leadership group than the provision of non-economic benefits. The suggests that the major benefits of family share ownership are financial and are based on short term dividend flows and the ability to pass a valuable asset to the next generation. This reflects Miller and Le-Breton Miller's (2014) 'extended view' of sociemotional wealth.

6.7 Relationships: Intra-family

It is implicit in the FIBER scale that strong intra-family bonds are expected to be present in family companies. The discussion in chapter 3 above has questioned whether this is necessarily the case in multi-generation family companies because of the impact of inter-generational shareholder diffusion. Weakening bonds is a factor underpinning the theoretical assumptions of family power and influence reflected in the life cycle and socioemotional wealth literature. The following analysis seeks to explore intra-family relationships noted by the respondents in the three case study companies.

The FIBER scale contains the following three propositions, which place particular attention on the place of emotion;

In my family business, the emotional bonds between family members are very strong
Strong emotional ties among family members helps us maintain a positive self-concept.
In my family business, family members feel warmth for each other

Table 15: Socioemotional wealth FIBER scale: Berrone, Cruz et al 2012

In a fifth or more generation firm with a diffused shareholding there is potential for conflict. This may be especially so where cousins are remote from one another emotionally and physically and only the accident of birth links them to one another. Geographical and emotional remoteness may mean that they are in no different a position to unrelated strangers.

Alternatively, families may be close but non-business family issues or history may be a continuing source of conflict that may sour relationships within and across generations to the detriment of family relationships.

The work of Eddleston and Kellermanns (2007) and Eddleston, Otondo et al. (2008) has recorded the detrimental impact of both relationship and task conflict on family company performance, particularly where ownership is dispersed across generations.

The analysis below, however, suggests an ambivalence across all three case studies relating to intra-family bonds. The analysis of Company A reflects a conscious desire on the part of the family leadership group to use contractual and relational governance mechanisms to remove sources of conflict and, through the Charter, create a normative version of the family around which different family branches may relate to one another. In Companies B and C, family bonds are not critical areas of concern; in Company B, family relationships are not dependant on the company; and in Company C, no attempt has been made by family leaders to bring the two families together as shareholders to develop emotional ties or develop feelings of warmth. Neither Company B nor C, however, recorded any issues of intra-family conflict. This analysis questions the need for strong emotional bonds among family members in multi-generational family owned companies where there is no history of conflict. A long history of family involvement, a commitment to dynastic succession and a focus on financial imperatives may explain the lack of importance of this dimension.

6.7.1 Company A

In Company A, the fourth and fifth generation family members commented specifically about the need to deal with the potential for task and relational conflict intra-family. Company A has a history of implementing governance interventions mechanisms to minimise the potential sources of conflict.

The fourth generation respondent noted that for more than forty years the company has adopted governance structures aimed at removing feelings of jealousy, the major source arising from the differing economic interests each branch of the family had in the company:

> *the big danger is jealousy and money (Company A:1);*
>
> *one thing we didn't want was to have public squabbles that overlapped into the business or distracted or got involved (Company A:2).*

The published history of the company, written by the fourth generation Chair, identified a conflict going back to the unequal allocation of shares to the second generation at the time of the formation of the company at the start of the 20th century. This issue was still creating difficulties in the 1960s when the fourth generation took over the running of the business.

This problem was addressed by reallocating shares, and therefore re-distributing family wealth between family branches to re-balance the shareholding in favour of descendants of the disadvantaged second generation. It also created a blocking shareholding of more than 27% which carried only one vote, and therefore forced the leading family branches to work with one another. The family member noted:

> *it could block any attack… we all had to agree… [the shareholding] has only one vote… the 27% has to vote together (Company A1).*

This mechanism is now reflected in the 2007 ordinary share structure. The cost of the wealth re-balancing exercise to the family was the need for the shareholders to consent to a structure of share rights that required the family to work together to eliminate relationship and task conflict*:*

> *but the 27% has to vote together… it can't go off in any direction without the others coming with it and that I think is quite important (Company A1).*

Both contractual and relational governance interventions, therefore, have been used to manage intra-family relationships and address issues of intra-family conflict. The fourth generation Chair noted the need for engagement:

> *one of the things I believe in is talking… keep discussions going… it's when you have this sort of canyon between members who won't speak to each other… I killed that as hard as I could whenever it happened (Company A:1).*

The family has further used the Charter and the latest relational governance structures to foster family identity by creating mechanisms for involvement and the exercise of voice. Those leading the family business recognise the need to create structures around which the family can come together and interact:

> *there is still a need for the next generation to know each other and, of course, the great thing about a family company, if it is really family… this is absolutely family, there is virtually no weight to anyone who is not family, then they've got to know each other and agree (Company A 1).*

The family leadership group have deliberately created structures through which family voice is exercised. This means that the family:

> *now have a central way of approaching the company rather than individuals making comments and going off sniping or anything like that… they've been very, very good at all coming together and all thinking together (Company A:2).*

The Charter specifically contains provisions relating to family conduct and behaviour. In particular, there are two appendices – Appendix 4, Code of Conduct, and Appendix 9, Definition of Consensus – that seek to direct family behaviours in relation to the company.

The Code of Conduct reflects a number of aspects of the FIBER scale. It addresses three main areas: the first relates to the expected behaviour of one family member to another and uses words such as responsibility, respect, integrity, courtesy, friendship, openness and honesty. Secondly, it deals with how decisions are made and stresses the need for open but confidential dialogue at Family Councils and Assemblies and a willingness to address family members directly with any issues. Finally, it refers to the expected relationship of the family with the external world. In this respect, family members are framed as ambassadors, they are asked not

to talk to the press, not to use social media irresponsibly, not to pledge shares as security, and never to criticise the company publicly.

There is a sense of reverse engineering. The FIBER scale elements referred to above and in section 6.8 below reference elements and behaviours reflected in Appendix 4 in the Charter. Rather than these elements, behaviours and attitudes emerging from family relationships, however, the Charter is used to prescribe normatively the expected behaviours of family members and their participation as shareholders.

The motive for this, the desire to avoid intra-family conflict affecting the operations of the business, is reinforced by Appendix 9, which defines the nature of consensus. The benefits of consensus are set out. Consensus leads to better decision making, better group relationships and the more successful implementation of decisions – *'resentment and rivalry between winners and losers is minimized'.* Inclusion is stated as requiring participation, co-operation, egalitarianism and solution-mindedness. Intra-family horizontal agency issues, arising potentially through factors such as asymmetrical shareholdings or factionalism across different family branches, are being explicitly addressed by using the Charter provisions to set out expected shareholder behaviours. This has two aspects. First, the Charter is being used as a conflict management mechanism and seeks explicitly to encourage collaboration through consensus (Sorenson 1999). Secondly, the Charter is addressing an issue highlighted in chapter 3 arising from shareholder diffusion linked to the meaning of family in multi-generation family owned companies. Appendix 4 and 9 could be argued to reflect an attempt on the part of the family leadership group to use the Charter to create a constructed notion of the family and its values around which a diverse shareholder group can unite and find a common identity.

From the above discussion, it can be seen that the family leadership group has used governance mechanisms to achieve a number of objectives. First, the group has addressed a problem arising from the unequal distribution of shares between family branches. Based on Sorenson's (1999) model, the management strategies have been centred on the notions of collaboration and compromise. Further, the rules or expectations of engagement set out in Appendix 4 and 9 of the Charter provide a framework for collaboration and cooperation, which seeks to produce positive family and business outcomes.

Secondly, the family leadership group has used contractual and relational governance mechanisms, particularly the Articles and the Charter, to establish how family members will engage with the company. Via the Charter mechanisms family shareholders are required to

communicate with the company with one voice. Within all of this, the individual rights of the shareholder are secondary to the collective will of the family. Dissenting shareholders may ultimately dispose of their interests in the company, but the process of transfer will itself be controlled by the Article provisions.

The family shareholder interviewed noted her approval of the Charter provisions and reported on the improved communication arising from the creation of the Family Council. She noted:

> *There is the more formal structure of the Family Shareholder Council whereas before that there was a slightly different structure and there was a closer family group that was involved…I think then that, inevitably, there were some parts of the family that felt slightly excluded…they were just sort of unlucky and it was not deliberately so…it was because they weren't involved in that particular group. So now it…has expanded and they're better communicating with everybody (Company A:4)*

> *…everybody should feel more represented on that Council, I would hope – I think that was the plan…the Chairman of the Shareholder Council will send us an update a week after the meeting and gives us pointers as to what they were talking about (Company A:4)*

Commenting upon lines of communication the same shareholder noted:

> *I wouldn't personally go straight to the Council…but I suspect you could. I don't think there is any real reason why not but I would have thought that you would probably be encouraged to go via your representative.(Company A:4)*

This echoes the intentions of the family members who constructed the Charter and who sought to provide a structure for family voice to be exercised through the Family Council. From a theoretical perspective there are clear agency imperatives driving actions, particularly in response to the horizontal intra-family and intra-generational agency issues. Democratic mechanisms embedded in the election and work of the Family Council and in the organisation of voting rights legitimise the control and monitoring activities of the Family Council.

The same democratic mechanisms provide evidence of the promotion of a stewardship perspective through the development of a participative framework allowing shareholder voice to be exercised. It could be argued, however, that the effect of the mechanisms established is to change the focus of the shareholder's attention from the company to the management of

the family's interest in the company. This reflects the second motive underpinning the governance arrangements, namely a preventative motive which seeks to protect the management of the company, under the direction of the controlling family group, from the potential interference of the wider family.

The effectiveness of the Assembly and the AGM to promote family identity and belonging was remarked on by the sixth generation family member who is employed by the company. This respondent remembered the family weekends arranged every three years when he was a child but noted that the Charter had formalise these meetings. Describing the current format of the Assembly he noted

> *We have discussions about where the company is headed…while the elder generations will talk about the [shareholder] letter…they would…put all the younger generation together and give us a challenge, so we would have to make a presentation…we'd then have a dinner in the evening, and once again, it's all about mixing so…after each course you swap seats…on Sunday we'd have these presentations and…I tend to give a ten minute update on what I've been doing (Company A:5)*

Commenting on the family, this family member observed

> *It is of an age where it is very diverse and I would recognise most people although I might not remember every single name…you get the occasional new face, people who live in New Zealand, Austria…but the bulk of the people there…they could be fourth or fifth cousins and I'd say I knew quite a few of them.(Company A:5)*

The creators of the Charter were explicit in seeking to increase the family knowledge of company affairs and the Assembly and the AGM play a crucial role in achieving this. The sixth generation employee noted that at the last Assembly

> *We had the CEO (non-family) come in and he did a talk on his day to day life…and he talked about himself and his route to get to where he is. It just connected the family with him and gave them more of an understanding. I guess it's [the Assembly] just used as an integration tool…it familiarises people who might not get to see anything about the company…we've then got the AGM…what they try to do is they put it in a hotel near one of the sites that we have and include a factory tour as well (Company A:5)*

I do think the weekends we have …create a bit of a bond…creates a close connection to it [the company] (Company A:5)

The structures and mechanisms created by the family leadership group in company A reflect the leaderships group's awareness of the threats to the company arising from the changing nature of family relationships created by inter-generational succession. Chapter 3 has noted the potential of weakening family bonds as a result of shareholder diffusion and the conflict literature has noted the role of trust and shared values in minimising the potential for conflict ((Jehn et al 1997:Jehn et al 1999; Steier 2001; Camelo-Ordaz, Garcia-Cruz et al 2014***).*** The use of relational governance mechanisms, including the Assembly and AGM, reflect explicit interventions designed to develop identity and belonging across the diffused shareholder group and ensure the notion of family, and therefore the notion of the family company, has meaning to the majority of shareholders. This analysis brings to life Suess' (2014) propositions regarding the way in which relational governance mechanisms may be used to promote trust, social interaction, unity, goal alignment, and conflict mitigation.

6.7.2 Company B

As commented on above, Cruz and Arrendondo (2016) have noted that different components of the FIBER dimensions will evolve over time. The FIBER elements being discussed in this section of the analysis focus on the emotional ties and bonds between family members and the warmth they feel for one another. These sentiments are not expressed in abstract terms, however, and refer to the relationship intra-family of a group of people linked through their ownership of a shared family asset. Chapter 3 has highlighted the weakening of family bonds as a potential mischief of share diffusion and an assumed weakening of such bonds has been proposed as a reason why the socioemotional wealth model may not apply to cousin consortium companies (Lim, Lubatkin and Wiseman 2010).

Why is a weakening of such bonds a threat? It is argued that this is a threat because it may lead to a lack of engagement by family members with the company, the replacement of family members with non-family managers and ultimately the potential sale of the company or its retention as an investment asset (Lane, Astrachan et al 2006). There is a direct link between the feelings family shareholders have for one another and their wish to remain together as stewards of a family asset that will be passed onto subsequent generations. The application of this criterion to company B is interesting.

There is no shareholder diffusion in company B, despite its longevity. The analysis of company B has noted how the diffusion of shareholding ended when the third generation transferred all the company shares to one member of the fourth generation. No formal relational mechanisms are in place to manage the relationship between the family and the company or the family with itself. The fourth and fifth generation family members are effectively in the same position as a first and second generation family company. The emotional ties and bonds referred to in the socioemotional wealth scale, therefore, arise from that father/son relationship.

The analysis suggests that the family business is not central to relationships within this family. The position of the fifth generation is of interest. The fourth generation father expressed regret that the eldest son showed no interest in joining the family business and despite being a shareholder has shown no interest in the company. The position of the eldest non-involved fifth generation son was summed up by the fourth generation father:

> *What I do find interesting is [x – son] never enquires – my eldest son – perhaps I ought to tell him now things are settled (Company B:1)*

The lack of interest shown by the eldest son is not a consequence of the changed focus of the company but existed long before the changes to the trading operations.

For the other son, the relationship with the company appears more instrumental than one driven by sentiment and emotion. This son reported very little interest in the company as a child and had no long term interests in the company as a career. He joined the company initially to help its recovery and has remained as it suited his family circumstances. It is significant that the son never challenged his father's intentions to dispose of the trading operations. The feeling of success reported by the son following the sale of the trading operations reflect the economically rational view of the company held by the son.

There was nothing in the conversations with the three respondents from company B to suggest a lack of familial ties between the generations but contrary to expectations the company is not an asset around which family identity and belonging is framed. To this extent, the criteria set out in the FIBER scale has not applied since the fourth generation shareholder took control.

6.7.3 Company C

Despite the potential complexity arising to a fifth or more generation family company through transgenerational shareholder diffusion, it is significant that there are no relational governance mechanisms in place to manage family relationships in Company C.

When asked whether they met formally with other family members to discuss family matters one shareholder simply said 'no' (Company C:6). A second shareholder confirmed this but highlighted the direct relationship with the current Chair and the role of the board:

> [*Current Chair] is a good communicator, we are lucky to have him…other shareholders, of course are relatives, with whom we have contact from time to time but there's no real discussion about policy in terms of how the company operates, that's really entirely the remit of the board (Company C:5)*

When asked about family interaction the non-family NED noted:

> *I think they meet occasionally at the AGM but there is no kind of interaction because they are mainly situated in different parts of the country (Company C:3)*

Beyond the ordinary social contact that might arise within any family there is no suggestion that the company actively seeks to intervene to manage the relationships between one shareholder and another, either within or between the family shareholder groups. No concerns were expressed by any of the respondents regarding this.

It is suggested that three factors may serve to explain this lack of need or intent. The first two relate to the management of the relationship between the company and its shareholders and will be discussed in detail below. These relate to expectations regarding decision making and the role of the Chair. The third relates to the successful performance of the company and the appreciation by the shareholders of that success. One shareholder noted:

> *In the current time the shares have been an extremely valuable asset and have given a good return …the dividend on the shares has been valuable and compares favourably with any other investment (Company C: 5)*

The non-family NED supported this view:

> *There has not been a lot of interaction so far over the past three years with the company doing very well…consecutive profit years and the dividend has been very*

good…for the type of shareholders that I've got, who are all approaching retirement and looking for stable incomes in the future…that is their first priority (Company C:3)

There is, therefore, no evidence of any attempt to create governance mechanisms to encourage closer family bonds nor any evidence that shareholders are pressing for such mechanisms to be created.

The analysis of the three companies in relation to the FIBER criteria set out above is interesting as it is different in each company. As argued in chapter 3, weakening bonds is a potential threat to a family company and has influenced the formulation of family company theory in a number of areas. This analysis has challenged this simplistic view. The detailed and complex responses set out in the analysis of company A reflects the deliberate attempt to manage intra-family relationships and create bonds through engagement. In Companies B and C the position is very different. The lack of share diffusion in Company B challenges the applicability of this aspect of the FIBER scale while in Company C, however, it has not been seen to be necessary to manage intra-family relationships actively despite shareholder diffusion. The analysis of Company A may highlight that family bonds are an issue only where there is a potential for family conflict. As noted, no family conflict issues were reported in Companies B or C. The analysis, overall, does provide evidence of a lack of emotional ties at the multi-generation stage.

6.8 Relationships: Family/Company

The FIBER scale focusses considerable attention on the notion of identity, and in particular, the identity family members have with and through the company. The separate elements of the FIBER scale note the following:

Family members have a strong sense of belonging to my family business
Family members feel that the family's business success is their own success
My family business has a great deal of personal meaning for family members
Being a member of the family business helps define who we are
Family members are proud to tell others that we are part of the family business

Table 16: Socioemotional wealth FIBER scale: Berrone, Cruz et al 2012

There is tension between these elements and the life cycle literature which, as discussed, posits the notion that the impact of transgenerational succession experienced by fifth or more generation family companies will result in weaker bonds between the company and the

shareholder and a diminution in certain aspects of the socioemotional wealth dimensions. This analysis has noted that few family members are involved in management or the board even where, as in Companies A and C, there is a large shareholding body. As a result the company may not be central to family belonging and identity and, indeed, the shareholding may simply be just another investment, albeit, one with a family history attached. These issues will be explored in this section of the analysis.

6.8.1 Company A

It has been previously noted that the family leadership group used the Charter arrangements deliberately to separate the family from the company. The image used by the family was of two circles, one representing family affairs and the other business affairs, which have been moved apart by the current governance arrangements.

The intentions of the family leadership group are significant because they challenge the arguments presented in chapter 3 that the distinctiveness of family companies comes from the interaction of the family and the business within the business itself. In Company A, there is little involvement in management or the board and the Charter provisions have been deliberately designed to limit the potential for individual family shareholder voices to be expressed.

This family member further remarked:

> *we've defined much more about what are the affairs of the family and what the family should or shouldn't be confusing… so what we hope is that the board can now… be much… less distracted and they can carry on running the business, the family can sort out most of their affairs and stay out of the way and as long as the two channels remain good enough hopefully the two will stay aligned (Company A:2).*

The current Chair added:

> *it's quite difficult because you have a family… who love the business… and they want the business to be successful but what they can't do is meddle with the business… it's finding those borders, those lines, so people in the company run the business… we have the [Shareholder] letter which gives guidelines to the board which are very clear in terms of ROC, levels of debt etc… and those guidelines have been there for 25-30 years*

so nothing has changed… so the board are working within the parameters… and they get on and run the business within those parameters (Company A:3).

The strategic involvement of the family is to set out broad parameters relating to the company and this is done via the periodic Shareholder Letter issued by the council:

The [Shareholder] letter is crucial… it is the link between the family and the business (Company A:2).

Further:

the Shareholder Letter, it's very important… and what it does it gives guideline to the board on a number of areas, one of which is dividend cover, there's one which is return on capital and one is on the levels of gearing, debt to EBITDA, so that's absolutely critical because the board are given parameters and they work within those parameters and if they go outside those parameters they would have to go to the Council (Company A:3).

The Charter has been used instrumentally to manage a growing shareholder base*: "we basically made it more formal" (Company A:3).* In effect, the Charter sets out the relationship between the family and the company and it is for the shareholders to decide the extent to which they accept the relationship as defined by the Charter. Identity and belonging is defined to an extent based on the Charter provisions. In the context of Kotlar and De Massis's (2013) observations, it can be seen that the Charter has created structures within which the family shareholders can participate in both familial and professional social interactions as directed by the Charter provisions.

As has previously been analysed in section 6.7.1 above, the creation of the relational governance mechanisms also represent an attempt to strengthen the bonds between the company and the family shareholders by facilitating shareholder interaction through engagement and representation. The role of the Charter, the Family Council, the Assembly and the AGM has been discussed. Creating, maintaining or enhancing bonds by increasing the knowledge of the company is a deliberate strategy underpinning the development of the structures. Based on the attitudes of the respondents this is seeking to build upon very positive attitudes towards the company reported by all respondents. This further reflects Suess' (2014) propositions relating to a role of relational governance mechanisms. It raises a

question, however, regarding the need for this dimension of the FIBER scale to be strongly reflected at the multi-generation stage. The analysis has demonstrated the limited extent to which family centred non-economic benefits are reflected in Company A's decision making. This posits the possibilities that the shareholders expectations are as economically focussed as the company's. The positioning of the company as a financially rewarding family asset may be more important than the sense of identity or belonging.

6.8.2 Company B

Despite the fourth generation owner being put into the same position as a first generation founder through the consolidation of shareholding the passion and drive associated with first generation founders was not present in the discussion with either the fourth or fifth generation family members. It was noted that through the generations the family has not had an extensive pool of family members to draw from. The fourth generation's father

> *was asked to come into the business, which he did so and it suited…but he died in 1961…he was only 51 then …I'm an only child (Company B:1)*

The early death of the fourth generation shareholder's father led him to train to take over the company.

> *Had my father been alive he'd have wanted me to be a chartered accountant but I was persuaded to go into [w]…I trained with a firm in [x]…then I went…to London and was at [y] with a firm that's now [Z]…then I came back and joined the family firm and I got a new expertise (Company B:1)*

This dialogue conveys the sense that the fourth generation's involvement was an unlooked for and pragmatic response to the early, unexpected death of his father. The fourth generation shareholder did note that an aunt passed her shares to him even though she had a son, as she did not consider her son suitable to be involved in the family company. It was noted, too, that of the two fifth generation sons, one has shown no interest in the company while the other professed to never having any intentions to join:

> *I don't think I really had any intention…it was never something I was looking at…neither did I want particularly to go straight into it (Company B:2)*

When asked about the family company history he remarked:

I must confess I probably don't know as much as I ought to…my grandmother never really talked much about the business because she wasn't involved but her husband was for some time, my Great Aunt…she would talk about the business but she wouldn't talk in any great detail…so there weren't any great stories other than I suppose from me growing up hearing from my father about things going on in the business (Company B:2)

With regard to his emotional connection to the family business, he noted:

I probably did take it for granted and saw the business as it was but I also had more of a pragmatic business mind… and whilst I always loved the sentimental side of the fact…'Wow, this is a lovely old family business' I think others placed a much higher importance on that probably than I did (Company B:2)

For the fifth generation sons there is no sense that the family company is central to their identity and belonging. The eldest son was never involved and the youngest never intended to make a career in the firm. The sale of the trading operations was seen as an achievement from a family perspective, not just because it provided a solution to the pension funding issue but because it also provided a successful solution for the family. The fifth generation spoke of the pressure he felt on getting involved:

I think it's inevitable that you feel a lot of responsibility to yourself, to your family business because it has been around for a long time and you don't want to be the one that let it break…so I think there is always going to be that paranoia and concern…so that was the bad side (Company B:2)

Consistent with the analysis in 6.7.2, there is nothing in the analysis to suggest Company B was central to the identity of this family and the applicability of this dimension must again be questioned. There is something to suggest this was an asset that came into the family's stewardship at the fourth generation unexpectedly and has been managed by the fourth and now fifth generation without it being central to their family identity. This does question whether the notions reflected in the FIBER scale need be represented at this company life cycle stage or whether family companies can be one asset amongst many that the family interacts with.

6.8.3 Company C

The FIBER analysis informs two separate narratives. For the two family members involved in the operations of the firm, the former MD and current Chair, and the sixth generation family member, the family company plays a significant part of their lives. It has been noted, however, that there are no relational governance mechanisms that seek to manage the relationship between the broader families and the company and there is no evidence of managed interaction within or between the two families. The discussion with two non-involved shareholders would suggest that whilst their intentions to pass their shares to the next generation reflects their wish for the family ownership and control of the company to persist, the company is not central to their identity and belonging.

Both noted that there was little communication with the company other than through the AGM and a letter from the Chair when dividends are paid.

> *The communication we receive consists of an annual shareholders' meeting, which evaluates the progress of the company over the last twelve months and then there are…letters providing information on the company's performance which are sent at the time the dividends are paid (Company C:5)*

A second shareholder, commenting on the level of communication noted:

> *…very little apart from the annual report and any communication from [X] in his capacity as Chairman (Company C:6)*

As previously noted, this shareholder had described their holding in the company *'more as an investment although the family connection does play a part' (Company C:6).*

The relationship with the Chairman, rather than with the company, would appear to be the critical relationship but as previously noted, that Chairman has sought to create contractual governance structures that separate the family from strategic decision making. The respect expressed for the work of the Chairman is acknowledged:

> *There is also the option…to make contact with the Chairman…but that's not something which routinely takes place…Nobody, I think, would consider it necessary or appropriate given the specialist knowledge which is required to operate…It's been really good to have a company in the hands of [the current Chair] who has really*

maintained extremely imaginative and secure guidance to the firm…I think it's fortunate for us that we do have that person at the helm (Company C:5)

There is nothing in the above analysis to suggest that the identity, belonging or self-definition of family members not involved in management or governance is closely linked to the family company. This may reflect, for companies A and C, the diffused nature of family shareholding and the distance between the everyday lived experience of the family shareholder and company matters. This is despite the strong dynastic successions intentions reported above in relation to share transfer. Even in Company B, however, where there is no diffusion and the fourth and fifth generation members are in no different a position to Tagiuri and Davis' (1996) founder and sibling, the company is not central to issues of belonging and identity. The relevance of this dimension to multi-generation companies must be questioned. This supports Cruz and Arrendondo's (2016) argument that companies will reflect the FIBER dimensions differently over time.

6.9 Relationships: Non-family Stakeholders

A significant number of elements of the FIBER scale are concerned with the relationships with non-family stakeholders. Those stakeholders are identified as customers, employees, external institutions and suppliers. This analysis particularly notes a discussion in all companies regarding the relationship between the family and employees. This is an area highlighted particularly in the stewardship literature and the analysis enables a detailed examination of the motives for the creation of trusting participative relationships (Westhead and Howorth 2007; Miller, Le Breton-Miller et al 2008). Further, the impact of the notion of the family company on other stakeholders was discussed by respondents. This re-enforces the notion that family companies occupy a different space in the minds of stakeholders.

The relevant elements of the FIBER scale note the following:

Customers often associate the family name with the family business products and services
My family business is very active in promoting social activities at the community level
In my family business, non-family employees are treated as part of the family
In my family business, contractual relationships are mainly based on trust and norms of reciprocity
Building strong relationships with other institutions is important for my family business
Contracts with suppliers are based on enduring long-term relationships in my family business

Table 17: Socioemotional wealth FIBER scale: Berrone, Cruz et al 2012

6.9.1 Company A

None of company A's products carry the company's name. The sale of one part of the group in 2005 led to the sale of the only product carrying the family name. The family product name still exists but is attached to products sold by a company with no family connections. The company also runs a charitable foundation in the family's name through the company involving family shareholders and employees. The main discourse, however, within Company A respondents focussed on relationships with employees.

A particular conception of the relationship is set out above in the FIBER scale bringing to the fore notions of trust, reciprocity and belonging. Relationships with employees are seen as long-term and the company seeks to nurture the careers of all staff. The socioemotional wealth criteria explicitly refers to the merging of the identity of the family with employees.

The shared narrative between the family members involved in management and governance in Company A reflects the imperative to address the needs of non-family employees:

> *once you get families involved in a company because they feel it's their right to be there and they start squabbling or whatever then… the impact upon the non-family members of that business is really negative (Company A:1).*
>
> *where a lot of family members automatically come in and you have a situation where you have got a board or whatever running it and then it's automatically understood that the family will come in and take it over, anyone good in that business is going to leave who is non-family (Company A:3).*
>
> *…what happens from my observations is that you get businesses that are being built up over generations… and the next generation comes in automatically and they… don't really have the ability to take the business forward… and it just drifts downwards and of course if you have that scenario you don't attract good people because good people will leave the business as you are bringing in family who aren't up to it (Company A:3).*

This is a clear, shared narrative, about family members only being involved on the basis of merit. This is something that has been debated and discussed extensively by family leaders.

Family members are not privileged and the need to recruit and retain talented non-family members was summed up by the fifth generation former CEO who noted:

> *we're not trying to populate the business with dozens of useless relatives… you are looking at Dad and X's [the current chair] father were effectively that generation, X[current chair] and I were the only ones who worked in this and currently of the sixth generation we've got one in the business and he's only just started so… the role of the family was to facilitate the very, very best management we could get and keep them loyal, keep them working and keep them rewarded (Company A:2).*

> *in terms of our management, the directors and the management of our business are second to none and they have thriving, hardworking and high paying careers… which is not necessarily what you would expect of a family firm (Company A:2).*

The consciousness of the need to address fairness between family and non-family employees was most acutely recognised by these family members. Fairness specifically referred to the allocation of rewards between family and non-family members.

The concept of fairness was used first to indicate the breadth of the family horizon:

> *we keep using the word fairness… what is fair for the directors, what is fair for the business, what is fair for the shareholders and fairness is an absolute catch all word because that takes out all sort of edge and everyone kind of knows what you are trying to achieve* (Company A:2).

More explicitly, the need to reward all those who contribute to the success of the company was noted:

> *This word family is an almost derogatory word in some ways…it seems to show preference and privilege…the family mustn't take out anything other than what they deserve, and you must always keep putting it back and the staff who are growing the business are the most important (Company A:1)*

A particular issue arises in relation to the balance between dividends and directors' remuneration.

I don't want the families here to be too rich… we want employees to feel that they are all part of the team (Company A:1).

we made a special effort to grow in the last twenty, thirty years and we are now at the crossroads where if we continue to increase the dividend the family dividend will be greater than the board total remuneration… it's finding the right balance but I think it's very important, absolutely fundamental that you have fairness between what the family get out of the business and what the board earns (Company A:3).

This is of concern given the family's reliance upon non-family members to occupy the senior executive positions in the company. This currently includes the CEO and CFO positions. Retaining non-family talent is critical to the long-term success of the company.

what is paramount is that the staff are fairly rewarded, if they are not and they leave you have no business (Company A:3).

Although this focus on fairness suggests that the company puts the interests of the family and the non-family members on a par, which would be consistent with some aspects of the socioemotional wealth measures, there is, however, a reality in this dialogue which reflects the ultimate contractual nature of the relationship with non-family employees.

ultimately most of the employees that we have are interested and want… to enjoy their job and they want to be fairly rewarded, those are the drivers and if we don't meet that they are not going to stay just because we are a family business (Company A:3).

The responses of the family shareholder and sixth generation family member employed on the graduate scheme reflected an acceptance across the family of the need to limit family access to employment to those who merited it and of the role played by non-family members in running the company. The sixth generation employee was keen to stress he was on a graduate and not a family training scheme. Further, the involvement of non-family members in the Family Assembly is an example of this interaction outside the company. The narrative of the family leadership group regarding non-family employees would appear to be accepted across the family.

6.9.2 Company B

The analysis has highlighted the relationships with and role of a long term non family-NED and an external consultant. A particular aspect of the discussion with the fourth and fifth generation respondents in Company B, however, was the importance of the concept of the family business to employees, customers and suppliers. This supports the FIBER elements noted above. The concept of family was seen as a particularly important element in creating identity and belonging in employees. Both fourth and fifth generation family members spoke about staff loyalty, the customs and rituals developed over time that reinforced the notion of the family firm, and the close relationships between the fourth generation family shareholder and the employees. This working environment was deliberately created by the fourth generation family member as a result of his early reflections as a young manager. He spoke, for example, of working with an external consultant on developing his leadership capabilities and of a revelatory moment that changed his outlook on his role as a leader. His reaction was profound:

> *that changed my whole outlook on business and we then got all the staff together in some hotel and I turned up in my suit… and I took my suit off, and had my shorts and t-shirt on and said 'I'm no longer Mr X, I'm [Y – first name], the company has changed, we've all got to change and if you are not prepared to change as I'm changing then you are probably in the wrong company (Company B:1).*

The long term advisor remarked that:

> *It was a very personal sort of business, I mean the people who worked for the business were like a family themselves, they were all part of a big family of 120 people (Company B:3)*

She noted the deliberate changes in management style over her period of contact with the company that changed relationships within the company:

> *The culture changed, it changed quite dramatically from forty years ago to most recently…originally it was quite an autocratic company, it was run by a small team at the top who said what happened…it actually had a lot of staff turnover…and it shifted, in some ways it was subtle…but it was deliberate…the shift was to …open up to include the managers and staff in the thinking processes and in the decisions that affected the*

> *success of the business…it was all very much about encouraging everyone to feel as though the business was theirs (Company B:3)*

The fifth generation son spoke of how that culture had influenced staff loyalty:

> *One part of the business which was fantastic was the staff loyalty…it was quite phenomenal really and we had lots of people that spent their whole lives working at the company…every year…we would give awards for various…things around the branches…but also how long people have been in the firm…we only gave awards at fifteen years because… there were so many people over fifteen years….well, I think we had people there up to forty years…and so staff loyalty was very good (Company B:2)*

At the core of this was the notion of the family

> *you did always get that feeling of how important to the customers, to them and to the staff as a team, that heritage was (Company B:2)*

The FIBER scale notes the relationship with suppliers. The pension deficit the company faced prior to the sale of the trading operations prevented them accessing bank loan finance but the company did access a £0.5m loan from a major supplier to acquire a new branch.

> *We had a huge amount of loyalty from [X – a supplier] for example…we had a …good relationship and we had looked after them when they had been through difficult times…although they are worth billions as an overall company the UK part…was just a small limb off the big company…and we had…a fabulous relationship where they felt part of our family (Company B:2)*

The fifth generation son went on to note how the loan came about

> *Because of our pension scheme we would generally struggle to raise the capital we needed to buy up the acquisitions we wanted…[the supplier] had approval from central [X] in Germany to loan money to companies like us and we were the first on their list and they loaned us £0.5m to go and buy a company and we were then able to pay them back without a problem…they would…accept the pension risk because they understood things (Company B:2)*

6.9.3 Company C

Although the analysis in section 6.8.3 suggests weak intra family relationships the respondents all commented on the notion of family. In terms of relationships with external stakeholders the

fifth generation Chair reflected on two aspects. The first related to customers. Although the modern factory site has been modernised the site was the home of the founder and part of the original building has been retained. These rooms are filled with company artefacts, portraits, photographs and other memorabilia that attest to the origins and longevity of the company. The history of the family is woven into the history of the company and the rooms purposely project the notion of longevity, continuity and stablity. The Chair noted that all customers are given a site visit that includes a tour of these rooms. The notion of family is explicitly used instrumentally as a marketing device to promote competitive advantage;

> *I think … you say family…but yesterday for instance …with these people from Singapore and Houston, they all felt this 'family business' was vital, that we've got something that a multi-national just doesn't have and they felt really thrilled to feel part of it …and doing a works tour again to see my family on the walls …they think it's amazing (Company C:1)*

The FIBER scale does not refer to the instrumental use of the family history to achieve competitive advantage but this is a tangible outcome of the association of the family name with a product or service.

In Company C, as with Companies A and B, the notion of family is perceived to be an important part of the dialogue with staff. A tour of the site with the fifth generation Chair indicated low power distances between him and all staff. Commenting on the affect on the notion of family on employers the fifth generation Chair noted;

> *Well they feel it, the staff feel it, I often stand up and say 'I haven't got any children – you guys are my family' and they love it ..they want to feel part of the place ..which is really nice (Company C:1)*

The non-family MD further observed that the family notion did not just apply to the shareholders:

> *we have a lot of long term employees as well who also have multiple generations…so we have fathers and sons in a few occurrences and nieces and nephews – even in this …business because to a large degree it's been local, it's been in [X – City name] primarily since its foundation, and on this site…there is a sense that the employees are also going generation to generation…and that really works well and there is definitely*

that sense of commitment, I'm not saying we are Cadbury's, but there a little bit of that...(*Company C C:4)*

It is perhaps not surprising that in three companies with such little family shareholder involvement in management or governance, particular attention should be paid to the relationship with employees. The normative arguments underpinning the stewardship analysis support the development of good relationships as do the FIBER element noted above, with references to trust, reciprocity and treatment as family members. The discourse in Company A reflects more instrumental and pragmatic relationships, the point being made that the company is dependent on good relationships with non-family members because the latter run the company. The discourse in Companies B and C, however, reflects the impact of the notion of the concept of the family on employee attitudes. For all three case study companies, the notion of family is an important aspect of its relationships with external stakeholders, and in particular employees. It is remarked that Carney (2005) does not refer to the impact of the notion of family as a source of competitive advantage but the above highlights the leverage attaching to the notion of family among different stakeholder groups that the family may take advantage of.

6.10 Leadership

6.10.1 Company A

The notion of the family, in the context of power and influence, is complex. The analysis of Company A has shown how, from an ownership perspective, differential class rights have created particular power relationships intra-family. The concept of major and minor family branches is part of the narrative of some of the respondents and horizontal agency issues are evident. In ownership terms, power resides in those most closely aligned to the trunk of the family tree, through the 2007 ordinary share mechanism.

This case study has also noted the relatively small number of family members involved in the management and governance of the company. The notion of this company as a family company as conveyed by all those interviewed is strong, however, and at the heart of the family are a group of family leaders who have and continue to drive the company and who have led the development of the Charter.

The family shareholders' relationship to Company A could be formally represented as follow:

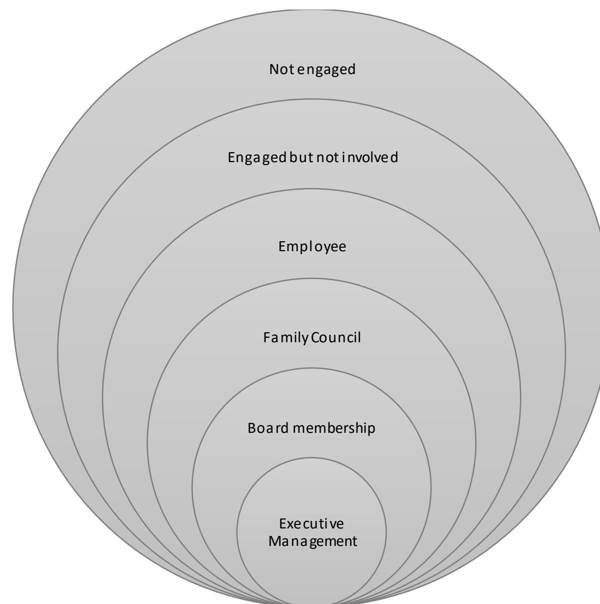

Figure 10: Company A: Family Roles

In power and influence terms, those family shareholders falling into the two outer rings are without power or influence on an individual basis. Those in the inner three circles play different roles and have access to different sources of legitimate power and influence dependent upon that role. The interplay of the legal obligations of directors, the contractual arrangements created through the Articles of Association, through board structure and the relational governance mechanisms adopted create a complex pattern of rights and duties which ultimately ensure that no individual element has unfettered power over any aspect of the company's operation. This is where the family narrative in Company A regarding the separation of the family and company requires refinement. It is the case that at the level of the individual family member the company can only now be accessed via the Family Council. That Family Council, however, can speak and act on behalf of the shareholders on a range of important matters, including the strategic framework, dividend policy, board and senior executive appointments and senior executive remuneration. The Family Council can be seen to be an additional agency mechanism, supplementing and enhancing the agency role of the board. From a decision making perspective, the Family Council has acquired episodic power and influence in relation to both decision management and decision control in respect of a number of specific areas of decision making. The power and influence of the board is limited by the power and influence of the Family Council. An example of this is the role of the

Shareholder Letter in communicating to the board the parameters within which they may make strategic decisions over a range of matters. This goes to a number of fundamental issues, including the type and quantity of funding the board can access. The board may only operate outside those parameters with the explicit consent of the Family Council.

Behind all of this, however, is a group of family members who are the active leaders and who ultimately control the company and the family, through the governance mechanisms created. In Company A, family leadership is effectively dynastic, and two branches of the family hold significant power within the broader family. This control goes back to the third and fourth generation. The fourth generation former chair stated:

> *the whole concept of the company really came from me and my cousin [X] and we were the ones who picked it up in the '50s, '60s and '70s (Company A:1);*

> *there was fairly strong leadership from the [X] family [one family branch] and the [Y] family [second family branch]… the family power saying what they wanted to do came from two leaders who agreed and were able to talk to one another (Company A:1).*

This leadership was passed to the next generation in both family branches:

> *so dad's generation… set this up this holding company and [X – current Chair] and I of our generation carried on… so for two generations we've had this core group at the heart but it actually only represented about 80% of the shareholders… so it was quite effective in that four or five people could really talk (Company A:2).*

The company is facing a difficulty arising from the forced retirement of the fifth generation former CEO on health grounds. The generational gaps in the family are long and the oldest sixth generation members are still in their early to mid-twenties. As previously noted, the Next Gen programme has been implemented to help the sixth generation understand more about the company and to encourage their future involvement. The company provides two-week placements for the sixth generation when at school together with the possibility of holiday jobs. Post-graduation there is a possibility of joining the graduate training scheme, if the candidate possesses the appropriate knowledge and skills:

> *we are now looking for the next leadership and so we start by bringing the young in for periods of training and we are now at a stage of advanced training where we are actually taking on as apprentices… family members (Company A:1).*

The one sixth generation family member on the management training scheme is the son of the former fifth generation chair and the grandson of the fourth generation chair. The investment in this family member is an investment in the future family leadership. The sixth generation family member noted:

> *I do like the fact that I work for my family company, I find it motivating…so I would say for me…I would want to keep going and work my way up…I enjoy the role I do, I like the path that's been laid out for me (Company A:5)*

The investment in this individual represents the potential investment in the next member of family leadership group.

6.10.2 Company B

The discussion in chapter 2 regarding the regulatory structure noted the imperative stressing the need for more formal board structure, composition and role the larger and more complex a company became. With respect to Company B, the reverse could be said to be the case for during the leadership of the fourth generation leader less formal and broader governance mechanisms have been introduced. After an initial period when leadership was exercised through a formal board with executive and non-executive membership, the fourth generation Chair created a broader structure involving both board and non-board mechanisms. A subsidiary operational board and holding company board was created but both a shadow Chair and shadow non-executive director role developed. Strategy discussion was effectively lead by the shadow non-executive director and involved the executive subsidiary board members. This would suggest a diffused leadership but the shadow non-executive director noted that the family ultimately controlled the overarching strategic framework. The question was raised why the company did not respond to de-regulation in the innovative manner some companies which are now recognised high street brands did. The fourth and fifth generation family members would not address this issue directly but the shadow non-executive director noted the following in relation to the family's ambitions:

> *When [competitor] first started it was clear that they were going to go big quite quickly and I think the [company] team didn't have that vision, they didn't want that, what they wanted was to run a small to medium sized company where everyone knew everyone…it was a very personal sort of business…the family didn't want a big business, they just wanted a successful business and success can be measured in a*

> *variety of ways…I think their real motivation was to be…well enough off to keep the business progressing but they didn't want to, say, move outside the region…they didn't want to be a national chain…they were looking for additions that fitted into the geography and the culture and the positioning of the business (Company B:3)*

This is an expression of the family endowment posited within a socioemotional wealth context, with non-financial family centred imperatives framing the strategic ambitions of the family. The fact that absolute power was vested in the fourth and fifth generation family shareholders meant that their vision could never be challenged.

6.10.3 Company C

Although strategy formulation and implementation has been devolved to an essentially non-family executive led by a non-family MD it is impossible not to see the fifth generation Chair and the Vice Chair from the second family as the main sources of power and influence in the company and, by extension, as the family leaders in relation to the company. The position was described as follows;

> *He looks after his lot .. I say 'go sort your lot out and I'll go and sort my lot out' and the two of us are on the Board … and fortunately we are of like mind, I think if we were not of a like mind it would be a nightmare (Company C:1)*

Commenting on the relationship

> *But…it works and we've learnt to …I found him to be an obnoxious…squib when he first joined the board and he found me to be a pompous ass and eventually we met in the middle and we get on really well .. so that's ok (Company C:1)*

The power and influence is exercised outside of the formal contractual governance structures as decisions in relation to board membership, dividends and remuneration are still informal family decisions made by the two family leaders outside of the board but subject to board ratification. This once again emphasises the limitations placed on the scope of the board and the relational basis of the means by which the family shareholder group has retained decision management and decision control powers. The employment of the sixth generation family member represents the first stage in the succession plan to ensure leadership ultimately passes to the next generation of the managing family. The fifth generation Chair's conception

of the leadership role the sixth generation family member will play in the future equates closely to the role he has developed during his time as MD and Chair.

6.11 Conclusion

The purpose of this analysis is to develop an ideographic body of knowledge in relation to each case study. Referencing the analysis to the power and governance literature, the FIBER scale defining the nature of socioemotional endowments and dimensions reflecting the nature of intra family and family/company relationships, the analysis has addressed issues of ownership, management, decision making, relationships and leadership.

This inquiry has sought to examine how governance mechanisms enable family shareholders in fifth or more generation family owned companies to retain power and influence over aspects of company decision making. The family company life cycle and familiness literature and the socioemotional wealth literature have raised questions concerning the power and influence of the family in fifth or more generation family firms, the basic proposition being that power and influence over company decision making will weaken as a result of shareholder diffusion and non-family managerial involvement. The analysis has shown the variability of family shareholders responses to certain aspects of the FIBER dimensions dealing with identity and identity which demonstrate weaker bonds at the fifth or more generation stage. The weakening of family power and influence has a number of implications, particularly in relation to the ability of such companies to reflect the characteristics that distinguish family companies from others and which enable them to access particular competitive advantages.

The ideographic knowledge developed in relation to all three case study companies challenges existing literature, however, as it has explained how power and influence can be retained by family shareholders in the three very different multi-generation family companies. The heterogeneous nature of the case study companies has presented different insights into the complexities arising to companies that have existed for many generations and which have negotiated trans-generational transmission, shareholder diffusion and the engagement of non-family members. Although the stated purpose of the analysis has been to develop an ideographic body of knowledge in relation to each case study, inevitably, a number of common issues have arisen across the case study companies that have theoretical implications.

It is noted, first, that despite the issues raised in the literature regarding weakening bonds in multi-generation family owned companies, all individuals interviewed, regardless of their

involvement with either the family or the company, identify the three companies as family companies. In all three, the family exercises de jure control through its shareholding and the interviewees know the controlling family members. Further, shareholders interviewed expressed their intention to pass on their shares to the next generation to maintain the company's identity as a family company. The striking feature in all three companies, however, is the very small number of family members engaged in operational management or governance. In management terms, all three companies have or have had, at one time, a non-family MD and in Companies A and C the top management teams are made up mainly of non-family managers. The analysis has provided the basis for the following statements:

a) In contrast to expectations contained in the F-PEC and FIFS familiness measurement scales and the FIBER scale, family dominance of the management teams and the board is not evidenced in the three case study companies and is not, therefore, the major source of family power and influence;
b) In all three companies, the analysis demonstrates that family shareholders exercise decision management and decision control powers over specific aspects of company decision making through relational governance mechanisms;
c) The relational mechanisms are both formal and informal. Company A is an example of sophisticated governance structures involving both contractual and relational mechanisms. Certain areas of company decision making require the inter-play of contractual and relational mechanisms to enable family voice to be exercised in relation to both decision management and decision control. In Companies B and C, the relational mechanisms are less formal and are based on the power bases possessed by specific family members. Company B is a particular example of how family power may be exercised through informal mechanisms in and around formal board structures. In both companies, decisions are made by family members outside the formal board structure. In all three companies, the boards' powers are limited by the relational mechanisms employed by family shareholders.
d) The analysis has shown, therefore, that in certain circumstances, family shareholders may continue to exercise power and influence over aspects of company decision making despite the dominance of non-family members in management and governance.

The major contribution this thesis makes, therefore, is to explain how relational governance mechanisms are sources of episodic power which may operate alongside management and the

board in particular areas of decision making. The identification of relational governance mechanisms as sources of episodic power is not contemplated in the governance, power or family company literature.

This finding has implications on a number of theoretical propositions founded on the current conceptions of power and influence reflected in the FIBER, F-PEC and FIFS scales, and this is a further contribution this thesis makes. In the context of socioemotional wealth, for example, the assertions of Lim, Lubatkin and Wiseman (2010) regarding the risk preferences of cousin consortium companies does not hold if the family continues to exercise power and influence over the company outside of management and the board. Similarly, the retention of family power and influence at the fifth generation stage through relational governance mechanisms challenges aspects of Carney's (2005) work on competitive advantage, the role of relational governance in addressing vertical and horizontal agency issues and the F-PEC and FIFS scales drawn from the familiness literature. The ideographic knowledge presented through this chapter's analysis will be developed in chapter 7 through a series of 'working hypotheses' presented as a series of discussion points. The discussion points will set out the theoretical contributions this thesis makes in a number of areas of family company research.

Chapter 7: Discussion

7.1 Introduction

The purpose of this chapter is to present the 'working hypotheses' as discussion points arising out of the case studies as a result of the 'thick descriptions' provided through the analyses in chapters 5 and 6. As discussed in chapter 4, this study is conducted within a naturalistic/constructivist paradigm and reflects a stance of ontological relativism. The 'working hypotheses' seek to illuminate matters relevant to the research questions asked, are interesting in themselves and may be transferable to other, similar, circumstances. They are not, however, generalisations applicable to all fifth or more generation family owned companies as a single category of companies but do provide theoretical insights into the exercise of power and influence in such companies (Lincoln and Guba 1985; Erlandson Harris et al. 1993; Guba and Lincoln 2005). The discussion points provides the basis for rethinking theoretical perspectives in future research.

This study has examined the forms of contractual and relational governance mechanisms created by three fifth and more generation private family companies in order to understand how those governance mechanisms enable the family to exercise power and influence over company decision making. In doing so, the inquiry has examined family shareholder involvement in a number of areas of corporate decision making, particularly in relation to strategy, rewards and appointments and has considered the impact of intra-family conflict.

The inquiry has examined, in particular, the means by which business owning families may use both contractual and relational governance mechanisms to maintain power and influence over decision management and decision control (Fama and Jensen 1983). Power and influence is identified in the familiness and socioemotional wealth literature as being expressed through the physical dominance by family members of management and/or the board. Physical dominance may end through transgenerational transmission and family power and influence will accordingly diminish.

The discussion points relate to the sources and disposition of power and influence by and across family shareholders. In presenting the working hypotheses as discussion points, the chapter will demonstrate how family shareholders have maintained decision management and decision control powers through relational governance mechanisms as well as contractual governance mechanisms as both are sources of episodic power, a position not reflected in

current governance or family company literature. This is the major contribution of this thesis. The chapter will further state additional theoretical contributions in the context of agency theory, the socioemotional wealth model, the familiness literature and the conflict literature as a result of the episodic power and influence open to business owning families through relational governance mechanisms.

7.2. Discussion Points

7.2.1 Discussion Point 1

Relational governance mechanisms are a source of episodic in multi-generational family owned businesses. In particular, relational governance mechanisms can be employed in addition to contractual governance mechanisms to address both horizontal and vertical agency issues (Villalonga et al 2015) by enabling family business owners to retain power over both decision management and decision control.

Chapters 2 and 3 have demonstrated that private company governance regulations have identified the board as the prime mechanism through which corporate control and monitoring is exercised. In particular, the decision control role of the board has been promoted in response to vertical agency issues arising from the separation of ownership and control. The family owned company literature highlights additional agency issues, they being the vertical issues between non-family managers, directors and family shareholders and the horizontal issues intra-family (Villalonga et al 2015). In keeping with the decision control role ascribed to the board, current models of familiness equate family power and control with numerical dominance of management and/or the board (Frank, Kessler et al 2017, Klein, Astrachan et al 2005). The representation of the cousin consortium company in the current life cycle literature and the socioemotional wealth model indicates acceptance of this analysis. The loss of family shareholder control is posited where there is shareholder diffusion, the weakening of family bonds and the dominance of management and the board by non-family outsiders (Lane, Astrachan et al 2006, Le Breton-Miller and Miller 2015, Lim, Lubatkin and Wiseman 2010).

In the three case studies examined in this inquiry, very few family members are involved in executive management and family shareholders do not dominate the board. In all companies, however, and contrary to the position represented in the current conception of family power and influence, the families retain power over particular areas of decision management and decision control in the company. The analysis in chapter 6 has demonstrated how, through

relational governance mechanisms, family voice is present in decision making in the three case study companies in areas such as strategy, appointments and nominations, dividend policy and rewards. The analysis has further shown that decision making can place outside of the formal contractual governance structures, the board merely approving the decisions made elsewhere by family shareholders or being required to act in conjunction with different relational governance mechanisms.

The analysis has shown, therefore, that the board is not the only or the major source of episodic power and the episodic power attaching to relational governance mechanisms must be recognised. Regulatory governance provisions and current literature (Suess 2014) restrict the scope of relational governance to the management of the family and no role is given to such mechanisms in the context of company decision making. The three case studies, however, have shown the role formal and informal relational governance mechanisms play in decision making in the company, the effect of which is to enable the family shareholder group to continue to exercise power over decision management and decision control in specific areas of corporate decision making.

In this inquiry, three very different fifth or more generation private family owned companies have been examined as they reflect the potential complexity and variety arising from trans-generational shareholder transmission and shareholder diffusion, inter-generational family relationships and the involvement of non-family members in the company in positions of power. Their differences provide three examples of the nuanced inter-play of contractual and relational governance in the company itself. It is noted that no one model of governance emerges from the analysis and the research has illuminated the limitations and dangers of prescriptive models because the choices made by families are conditional and contextual.

Based on this analysis the thesis argues, therefore, that family shareholders can retain power and influence over decision management and decision control even though few family members are engaged in management or the board and this may be done through formal and informal relational governance mechanisms.

Chapter 6 has highlighted that in each of the case study companies, individuals or groups of family shareholders have taken a leadership role and have created or determined the governance mechanisms and processes through which the family will retain power and influence.

In Company A there are a number of individual family shareholders who have acquired power and influence (on the basis of their authority and legitimacy) through the formal positions they hold in the management or contractual governance mechanisms of the corporate group. A fifth generation family shareholder holds the position of Chair and two family shareholders have been elected by the family to sit on the board. Their power is based on the roles they play within the company.

A second group exists, however, who exercise power over the company and the family because of their position within the family. They are a small group of family members who have taken on responsibility for both running the company and managing the family's relationships with the company and are referred to hereafter as the family controlling group.

The family controlling group of Company A consists of the current fifth generation Chair, the fifth generation former CEO, the fourth generation former Chair and the fifth generation former NED who now chairs the Family Council. They have available to them specific forms of episodic power based on their current and former management and governance roles, the main bases of their power being social, legitimate, referent and expert power (French and Raven 1959; Fleming and Spicer 2014). The social and referent powers distinguish them from other family members involved in the company as employees or board members. Their position is also consistent with McNulty, Pettigrew et al. (2011) and Finkelstien's (1992) examination of the role of the Chair, it being noted that two of the four have held or hold the role of Executive Chair, which is identified as being the role that exerts the greatest influence derived from the structural, expert and ownership bases.

In relation to this group, there is a dynastic aspect to their involvement with the company which reflects the social and referent bases of power (French and Raven 1959). As was noted in the analysis above, the family controlling group are closely related, are all 2007 ordinary shareholders, and lead or have led their respective family branches. There is a present-day continuity in the involvement of these family branches as the sixth generation family member currently employed as a management trainee is the grandson of the former fourth generation Chair and son of the fifth generation former CEO. The expected future leadership of the family's interest in the company continues, therefore, to reflect this dynastic aspect.

The significance of this group lies in the power and influence they and those they succeeded, have had in determining the nature of Company A's governance mechanisms. As the analysis noted, the Charter, which is at the heart of the current governance arrangements, was created

essentially by the fifth generation Chair and the former CEO, with advice from the fourth generation former Chair. The Charter provisions build on the work undertaken by their fathers at the fourth generation and reflect Salancik and Pfeffer's (1997) observations regarding the dynamic nature of power in organisations as they adapt to uncertainties and changing circumstances.

In essence, this small group has determined the disposition of power and influence across the family and within the company for at least two generations. The discussion of the role and impact of current governance mechanisms in Company A is a reflection of the decisions this powerful and influential group of family leaders have made concerning the relationship between the family and the company. In effect, they have decided the issues over which family voice will continue to be exercised and the relational governance structures created through the Charter provide the means by which such voice is exercised.

Company B's circumstances are very different to those of Company A. The transfer to a single fourth generation family member by the third generation shareholders placed that fourth generation family member as controlling owner (Gersick, Davis J.A. et al. 1997). In this one individual both de jure and de facto control were fused, giving him absolute control as owner and manager over every aspect of the company. Further, with no external shareholders and no competing family members, the fourth generation owner has been free to conduct the affairs of the company without reference to the demands of a broader family. In power terms, there has been no challenge to the absolute control exercised by this fourth generation owner/manager because of the authority and legitimacy given through absolute ownership. He has had absolute access to the bases of both coercive and manipulative power and both decision management and decision control potentially reside in this one individual (Fleming and Spicer 2014: Fama and Jensen's (1983). This case study challenges the generalisation that fifth or more generation companies are subject to shareholder diffusion.

Although in a position of a controlling owner, the fourth generation shareholder has not placed himself formally at the centre of the management and governance structures of the company. The analysis has shown the development of a series of formal board structures over time, including the use of a holding and subsidiary company structure, as well as the long term engagement of a non-executive director and an external consultant who have acted as personal advisors. Consistent with the argument that relational governance mechanisms are an additional source of episodic power, however, the boards have always been subject to the

wishes of the fourth generation shareholder, who for much of his time has not held any formal roles in the contractual governance structure. The social, referent and legitimate power attaching to him has not been affected by any formal contractual governance mechanism (French and Raven 1959).

The analysis has also highlighted the preference, too, given to the fifth generation family member who joined the company in 2008. This was not a board appointment, but was one made by the fourth generation shareholder. Further, the analysis has noted that decision management and decision control over certain areas of company decision making only resided with the family and the boards were excluded. At a strategic level, for example, decisions around investments and business diversification were matters only for the two family members.

There is also a controlling family group at the heart of Company C. The two most powerful family members in terms of company decision making are the current Chair, who has exercised executive control over the company for four decades as MD, and the Vice Chair. The authority the current Chair has is derived, first, from the narrative of one family having managing responsibility and, secondly, from his 'dynastic' claim. This is based on his father's role in the company. The Chair, therefore, is the leading member of the managing family while the Vice Chair leads the investing family, but the Chair, as former MD, has had the dominant leadership role. The Chair has had and retains considerable personal power based on his legitimate, expert and social position (French and Raven 1959, McNulty, Pettigrew et al. 2011). The analysis has shown that although these two individuals hold formal roles in the contractual governance structure, specific decisions, particularly in relation to dividends and appointments, are made by them outside the board structure. The analysis has noted that family shareholders recognise the personal authority of the Chair.

A question arises regarding the motives of the family controlling groups, particularly in relation to Companies A and C. The agency analysis highlights the potential horizontal issues arising in family owned companies where shareholders with majority stakeholdings may abuse their positions through the exercise of their power (Villalonga et al 2015). Similar horizontal agency issues might also attach to a group of family shareholders with access to sources of episodic power not open to other shareholders. Such an analysis would not seem applicable in any of the cases examined and no horizontal agency issues were identified. There was no evidence, for example, that these individuals were seeking pecuniary or other advantages over other

family shareholders. Westhead and Howorth's (2007) argument regarding the applicability of the stewardship analysis would seem to apply, particularly as the motives of the actors they identify – the owners, managers and employees – appear to be aligned. So too, the ideas of the nurturing of a community of employees (Miller and Le Breton-Miller (2005), the place of commitment and shared values (Davis, Schoorman et al 1997) and the role of trust as a governance mechanism (Steier 2001). This later point is considered significant as none of the family shareholders interviewed challenged the leadership role of those identified in this analysis as members of the family controlling group. Indeed, one noted the expectations the family had that one member should take on such a leadership role and another praised the family member for what they had achieved as leader. It was noted in the case of Company B that the fourth generation chair was gifted all the shares by family members because of the confidence they had in him over other cousins to run the business.

For Companies B and C it is argued that the personal power residing with the family leaders is the most significant relational governance mechanism ensuring the retention of family voice over specific aspects of decision making. This is regarded as an informal relational governance mechanism.

Company A, however, is an example of how the sophisticated interplay of contractual and relational governance mechanism in a large and complex corporate structure is crucial to the family's maintenance of power and influence over specific aspects of both decision management and decision control. In the context of the relational governance mechanisms, the Charter, the Family Council and the Shareholder Letter are the three mechanisms through which family shareholders retain and exercise power and influence over specific areas of decision making.

As discussed in chapter 6, the Charter is at the centre of Company A's relational governance arrangements and performs a number of functions. First, the Charter creates new relational governance mechanisms to address issues raised by the growing complexity of the family shareholder group. This is consistent with the argument that growing complexity is an antecedent to the development of relational governance mechanisms (Suess 2014). The drivers Suess refers to – the need for more information and coordination (Brenes, Madrigal et al. 2011) and the potential for divergent views on gaols (Habberson and Astrachan 1997, Mustakallio, Autio et al. 2002) – may not reflect all of the drivers in the case of Company A. In

particular, there is an explicit intention to retain power and influence over defined areas of company decision making. This is not anticipated in Suess's analysis.

The family controlling group has created mechanisms through which it may continue to exercise power within the company even in the absence of a majority of family members with executive management responsibilities. It has done this by involving family members in specific decision making processes which, in formal regulatory terms, are usually the sole domain of the board. Therefore, the Charter legitimises areas of continued family power and influence by defining the required interactions between the board, the Family Council and nominated family shareholders. As a result of these measures, the board is denied sole authority in specific areas relevant to the exercise of power, particularly in relation to strategy, appointments and nominations and rewards.

The Family Council has been shown to be the main body through which the family exercises control over the company's activities and can be regarded as having been granted legitimate authority to be the main conduit through which the board and the family interact. It is the Family Council, for example, that now has power to issue and update the Shareholder Letter setting out the family's strategic parameters.

The Family Council can also exercise voice in relation to family board representation, senior company appointments and remuneration. In terms of rewards, the Shareholder Letter sets out expectations regarding the dividend while the board's remuneration sub-committee has a family member who is accountable to the Family Council. The expert base of power is exercised through the Family Council's involvement in the appointment of senior executives and the Chair and in the nomination of the family NEDs.

Company B has identified one other type of relational mechanism, this being the informal role of a long term advisor to the fourth generation shareholder. This individual has played an important role in strategy formulation and has mentored board members but she has not held a formal contractual governance role. This individual has acquired a number of forms of power – expertise, referent, social- during the course of her engagement with the company (French and Raven 1959; Fleming and Spicer 2014). This has been a shadow role, however, in keeping with the shadow role of the fourth generation shareholder.

The three case studies collectively demonstrate that generalisations must be avoided regarding the power and influence of the family shareholder group in cousin consortium

companies where there is shareholder diffusion and non-family individuals dominate management and the board. They demonstrate the need to understand the nuanced inter-play of both contractual and relational governance mechanisms to understand the disposition of power over decision control and decision management. In using both contractual and relational mechanisms to address horizontal and agency issues, the family shareholder group may retain family voice and continue to express family preferences in terms of strategy, rewards and the involvement of non-family individuals.

7.2.2 Discussion Point 2

The identification of relational governance mechanisms as sources of episodic power questions the validity of the measurement criteria set out in the F-PEC (Klein, Astrachan et al 2005) and FIFS (Frank, Kessler et al 2017) scales based on the presence and dominance of family members in relation to management and the board.

The F-PEC and FIFS scales reflect similar conceptions of the measurement of family power and influence in a company. The F-PEC scale seeks to measure family influence over a company on the basis that it is the influence of the owning family that makes a company a family company.

The F-PEC model implies that family's power and influence will be weak where the family does not physically dominate either management or the board. A loss of physical control implies a loss of power and influence over decision management and decision control.

This representation of power and control is reflected, too, in the FIFS scale. The FIFS scale includes a section dealing with ownership, management and control. The assumptions underpinning the F-PEC measurement scale apply equally to the FIFS scale.

The logic of both scales is straight forward. A family that does not have physical control of management and/or the board, and in particular the board, has lost control of company decision making. The consequence of this is that cousin consortium companies with diffused shareholding and little family engagement in management or the board are not seen necessarily to be family controlled companies.

This inquiry challenges the validity of the power and control conceptions presented in the F-PEC and FIFS scale as the three case study companies have demonstrated that power and influence can be retained despite the lack of family dominance of management and the board. In particular, working hypothesis 1 has shown how relational governance mechanisms are

alternative sources of family power and influence which give the family access to company decision making.

In all three case study companies only a small number of family members are involved in management or the board. Applying both the F-PEC and the FIFS scales to the three case studies would result in a conclusion that misrepresented the family's access to power and influence, which the family continues to exercise.

In the case of company A, the analysis has shown that only one family member is involved in executive management and two other family members have non-executive roles on the board. There are eight board members in full. In simple numerical terms non-family members dominate the board. The analysis has shown, however, that family voiced is exercised in specific areas of decision making.

In the context of the board, the power position of the Executive Chair has been commented on. Consistent with McNulty, Pettigrew et al. (2011), the Executive Chair has significant influence and is a fifth generation representative of one of the three controlling branches. His power is derived from his structural, expert and ownership power base. As Chair, this family member has access to both coercive and manipulative bases of power, particularly since, in his role, he controls board meeting agendas. It is noted that both the CEO and CFO in Company A, however, are non-family members.

The family NEDS are appointed through processes referred to in the Charter and are regarded as possessing the will and skill attributes identified by Pettigrew and McNulty (1995, 1998). They have two roles. First, as full members of the board they are subject to legislative and other obligations attaching to all board members. Secondly, the Charter sets out the additional responsibilities they have in relation to the family. The responsibilities identified strongly refer to the horizontal and vertical agency issues inherent in family/non-family manager and intra-family relationships and there is an emphasis, therefore, on the monitoring and control role. Explicitly, the Charter states that the family NEDs represent the family shareholders, they must act as a conduit and report back to the Council, they need draw attention to family concerns raised by the Council, and they must challenge and scrutinise the executive officers and management. Their power is based on the legitimate authority attaching to their position as directors but is enhanced by the fact that they represent the family on the board. A specific responsibility the Charter requires the NEDs to perform is to act as ambassadors for the family and represent the 'familiness' of the company.

Further, the discussion above with reference to discussion point 1 has shown how the Charter has created a sophisticated relationship between the board and relational governance mechanisms to enable family voice to be exercised. This is not contemplated in the F-PEC or FIFS scales.

In the case of company B, the analysis has shown the changing pattern of governance during the fourth generation's stewardship. In the context of the F-PEC and FIFS scales, it need be noted that for a considerable period following the assumption of leadership by the fourth generation shareholder, the operations of the subsidiary operating company have been managed by a non-family MD and a board composed of non-family members. Prior to the creation of a subsidiary company, the board consisted of three individuals, two of whom were non family members. The holding company board has consisted of nominal family members and a long serving non-family NED but the fourth generation shareholder has not been directly involved. It is only since the company has become an investment management company that a single board structure has been created and both board members are family members.

The discussion above in relation to the 'controlling owner' position of the fourth generation shareholder emphasises the limitation of the F-PEC and FIFS conception of power, that being that power is seen to be exercised through the management and the board. The analysis may not apply where power is exercised informally in and around the company by individual family members and fails to fully explain the disposition of power.

The applicability of the F-PEC and FIFS conceptualisation is challenged, too, by the arrangements in Company C. Although Company C has a complex and diffused ownership profile and is owned by two unrelated family groupings, who have notionally played different roles based on an historic narrative, it is noticeable that only four family members and an individual married to a family shareholder have roles in the company. As noted in the analysis, one is the non-executive Chair, one is the Vice Chair, one is a non-shareholding family director/employee, one other is a family shareholder with a part time director role and the final individual is a non-shareholding spouse of a family shareholder.

The analysis has noted the developed governance mechanisms in place, and in particular, the use of governance mechanisms to define the relationship between management and the Shareholder Board. In effect, the family leaders have created a two-tier board structure, more akin to a German governance model than that found in the UK consisting of the Shareholder Board and a Commercial Board. The F-PEC and FIFS analysis would assume family control over

all areas of decision making because of the dominance of family shareholders or family representatives on the Shareholder Board. The position is more nuanced, however, given the governance arrangements in company C.

The board arrangements reflect the exercise of both coercive and manipulative power by the family leaders, the effect of which has been to distance strategic decision making in the company away from broader family influence (Fleming and Spicer 2014). Strategy formulation and objective setting has been removed from the scope of the Shareholder Board and now rests with the non-family MD and the mainly non-family senior executives running the company. The strategic plans emerging from this group are primarily tested and challenged by the Commercial Board, on which the Chair and Vice Chair sit. The Shareholder Board ratifies and monitors but does not set strategy.

Further, particular areas of decision making, and in particular decision regarding appointments and dividend policy, sit outside the scope of the Shareholder Board. Decisions over these matters are made by the two family leaders informally and then taken to the Shareholder Board for ratification.

All three case studies, therefore, illustrate the requirement for a more nuanced understanding of the impact of family relationships on the operation of management and the board. Simply counting the number of family members involved is insufficient. The scope of the activities of both management and the board are subject to the power residing in the family controlling group, who have access to a variety of relational governance mechanisms through which to exercise power. These relational mechanisms enable a relatively small number of family members to exercise decision management and decision control over areas of importance to the family.

7.2.3 Discussion Point 3

In the context of the socioemotional wealth model, the conception of 'Family control and influence' presented in the FIBER scale (Berrone, Cruz et al 2012) frames power and control in terms of the family's dominance of management and the board. No account is taken of relational governance mechanisms as additional sources of family power and influence. The FIBER scale fails, therefore, to identify all the sources of episodic power within multi-generational family owned companies.

The analysis in chapter 6 has been referenced to the FIBER scale. Unlike the F-PEC and FIFS scale, the FIBER scale has not been devised to measure familiness. Rather, the scale seeks to identify the dimensions of socioemotional wealth that may be present in a family owned business. As this is not a familiness measurement tool the purpose is not necessarily to define what is and what is not a family company. Rather the scale seeks to provide a means to measure the various dimensions of socioemotional wealth at different stages of a company's life cycle. This inquiry has shown, however, the potential limitations in the conception of power and influence as expressed through the criteria set out in the FIBER framework to assess 'Family control and influence'. Berrone, Cruz et al (2012) recognise the influence of the work of Klein, Astrachan et al (2005) who created the F-PEC scale on the formulation of the FIBER dimensions.

Reflecting the F-PEC measurement elements, the FIBER dimension for 'Family control and influence' contains the following criteria:

a) The majority of shares in my family business are owned by family members
b) In my family business most executive positions are occupied by family members
c) In my family business non-family managers and directors are named by family members
d) The board of directors is composed of family members
e) Preservation of family control and independence are important goals for my family business

The dimension frames power and control in terms of the dominance of management and the board and fails to account for alternative sources of power and influence, and in particular, the impact of relational governance mechanisms.

The discussion above in relation to discussion point 2 is applicable to this discussion. In the context of the socioemotional wealth model, the power and influence the family has over decision making is critical because without it the family cannot use company resources to make decisions in relation to family centred non-economic benefits. In effect, the socioemotional model cannot apply if the family has lost control over decision management and decision control. This inquiry has demonstrated that the conception of family influence and control based on the family's physical dominance of management and the board fails to

capture the potential role of relational governance mechanisms in enabling the family to exercise decision management and decision control powers despite the family's limited involvement in management or the board. The analysis arising from all three case studies suggest the need for the FIBER dimensions to be revised to take into account the episodic power the family may exercise through relational governance mechanisms.

7.2.4 Discussion Point 4

The socioemotional wealth model, as informed by the behavioural agency model, predicts that family shareholders will demonstrate loss aversion preferences. Lim, Lubatkin and Wiseman (2010) have challenged the applicability of the socioemotional wealth model to cousin consortium companies on the basis that family shareholders will lose power over decision management and control as the family no longer physically dominates management and the board. As a result the preferences of shareholders will change and cousin consortium family shareholders will display risk preferences similar to neutral investors posited by the agency analysis. As the risk preferences has changed the socioemotional wealth model can no longer apply. This thesis argues, however, that the retention of power over decision management and control by family shareholders through relational governance mechanisms enables cousin consortium companies' decision making to continue to reflect loss aversion preferences in keeping with the behavioural agency model. This explains why the socioemotional wealth model may still apply at the cousin consortium stage to multi-generational family owned companies.

The impact of this working hypothesis from a socioemotional wealth perspective is significant. As discussed in the literature review, socioemotional wealth is distinguished from the agency analysis by the shareholders' attitude to risk. In the agency analysis principals are seen to be risk neutral. The socioemotional wealth model is informed, however, by the behavioural agency analysis. In the behavioural agency analysis, the family shareholding group is seen to display loss aversion rather than risk neutrality, and that aversion is expressed in relation to the loss of family endowments. Central to this is the ability of the family to retain control over company decision making.

This working hypothesis is significant in answering a question posed in the literature regarding the applicability of the socioemotional wealth model to companies beyond the first or second generation. In the paper proposing the FIBER dimensions Berrone, Cruz et al. (2012) set out a

series of unanswered research questions, one of which was 'How does SEW evolve over time and generations'. This thesis addresses this question.

Discussion point 3 challenges the conception of family influence and control represented in the FIBER dimensions on the grounds that it is too narrow as it excludes any consideration of the impact of relational governance mechanisms.

For Gómez-Mejía, Haynes et al. (2007), the argument is that the willingness of the family shareholders to retain decision management and decision control is weakened as a company moves through the founder/sibling/cousin consortium lifecycle and this is reinforced elsewhere (Lane, Astrachan et al. 2006, Le Breton-Miller and Miller 2013). The argument is that transgenerational succession leads to weaker bonds between the family shareholder group and reduces the willingness to maintain control. It implicit that the weaker bonds arise from both psychological and physical factors impacting upon the notion of family identity. Weaker bonds leads to weaker interest and the involvement of fewer family members. This is the point reflected in the FIBER dimensions in defining family influence and control.

Applying the conception of family control and influence as represented by the FIBER dimensions, and accepting the characterisation of family involvement in management and the board at the cousin consortium stage in the life cycle literature**,** Lim, Lubatkin and Wiseman (2010) have questioned the applicability of the socioemotional wealth model to cousin consortium companies. As noted in Chapter 3, they have argued that the weakening of family bonds and lack of interest will put shareholders in the same risk position as those in the agency analysis and they will display risk neutrality and not loss aversion. This is consistent with Lane, Astrachan et al's (2006) portfolio and market classifications of cousin consortium family companies.

This thesis challenges the assumptions and consequences of the explanation provided by Lim, Lubatkin and Wiseman (2010) in relation to the applicability of the socioemotional wealth model to cousin consortium companies. The assumptions and consequences reflect the general assumptions regarding the relationship between the business owning family shareholders and the company as a result of shareholder diffusion. The generalisation is contested. Family shareholders in cousin consortium family companies may still retain control over decision making and may still display loss aversion preferences in relation to family endowments. The three case studies have demonstrated how the exercise of power and influence in cousin consortium companies needs to be reconceptualised to include the impact

of relational governance mechanisms. All three companies in this study defined themselves as family companies and all shared a sense of the history and a connection with the generations that had gone before them. All also demonstrated how family shareholders retained control over particular aspects of company decision making

In the context of the question posed by Berrone, Cruz et al (2012) regarding the evolution of socioemotional wealth, this thesis shows how cousin consortium companies can continue to demonstrate decision making characteristics consistent with the socioemotional wealth model, despite shareholder diffusion and limited family engagement.

7.2.5 Discussion Point 5

Cousin consortium family owned companies who wish to retain family shareholder power over decision making are more likely to identify independence from non-family equity investment as the main socioemotional wealth endowment.

Cruz and Arrendondo (2016) have argued that the FIBER dimensions will evolve differently over time and that companies may behave differently depending upon the predominant FIBER dimension. The arguments presented in discussion points 3 and 4 have provided a basis for the socioemotional wealth model to continue to apply to cousin consortium companies. Decision making in these companies will continue to reflect loss aversion characteristics posited in the behavioural agency literature, that loss being expressed in relation to family endowments. In discussing the nature of family endowments, the socioemotional wealth literature has drawn particular attention to the legitimacy given to nepotistic or altruistic behaviour exercised in favour of the family. As demonstrated in the analysis, however, none of the case study companies showed these behaviours. The analysis also evidenced the weakness of the emotional ties between family members because of shareholder diffusion. The case studies did provide evidence, however, of a broader range of socioemotional endowments, including the exercise of authority, the preservation of dynastic influence and control and the wish to conserve family values and social capital. These elements are expressed in the five dimensions of the FIBER scale referred to above (Berrone, Cruz et al. 2012).

Based on the application of the FIBER dimensions overall, this thesis posit that for all three companies aversion to the loss of independence is the major socioemotional wealth endowment and expresses the family's will to retain power and control over the family asset.

In the case of Company A, the wish to remain independent is clearly stated in the Shareholder Letter, which emphatically informs the directors that capital will not be available from outside equity investors nor from existing family shareholders. This places restrictions on access to equity capital, with all the financial limitations and consequences this entails. From a socioemotional wealth perspective, limiting access to specific types of finance is the cost of maintaining family control, and therefore independence. Thereafter, the financial wellbeing of the company, its sustained existence into the future as a family asset, and its ability to create value through an income stream are the main goals for the family. This notion of the socioemotional wealth endowment enjoyed by the family is consistent with Miller and Le Breton-Miller's (2014) notion of 'extended SEW', which is defined as 'the long-term wellbeing of motivated later generations able and willing to nurture the firm' (p.717). It is also consistent with Le Breton-Miller and Miller's (2013) arguments concerning the changing nature of the family firm through the lifecycle stages.

In the case of Company B, the family made conscious decisions relating to the nature of the company it wished to run and the exclusion of external equity. When asked about issuing shares to non-family managers as part of an incentive scheme or offering shares for sale the fourth generation family member stated emphatically that this was never something he would contemplate. From a socioemotional wealth theory perspective, the case study illustrates the way in which strategic decision making reflects the family's conception of what it wishes the business to be, free of external pressures. The company operated in a sector subject to considerable de-regulation in the 1980s. De-regulation enabled new business models to emerge and provided the basis for the development of national corporate chains. The company was sufficiently well placed and managed to respond to the changes and, in the opinion of the external consultant, could have become a national organisation. The fourth generation shareholder made a conscious decision, however, to limit the nature of the company's ambitions. Both the fourth and fifth generation family members were reticent on this matter but the non-family consultant was more open. This individual noted that the family limited the strategic growth of the company by defining of the type of company it wished to run, namely, a closely managed family company, reflecting family values and operating within a defined geographic area. Additionally, the family deliberately rejected the franchising business model, which was developing across the sector. Such decision making could only take place in the absence of other voices or external capital and in the context of a family leader with sufficient independence to make such strategic choices.

The wish for independence was similarly reflected in the discussion with company C. The analysis of the application of the FIBER dimensions presented in chapter 6 revealed the predominance of the notion of ownership and dynastic succession over the other dimensions. This supports the idea of the continuity of family ownership free of non-family involvement and reflects the views of the fifth generation Chair that the families' concerns are with the long-term sustainability of the company as a commercial enterprise and its continuation as an independent family owned company. As with Company A, this would suggest an attitude in keeping with an 'extended SEW' conception (Miller and Le Breton-Miller 2014).

7.2.6 Discussion Point 6

Relational governance mechanisms may be employed to address the agency costs of moral hazard, hold up and adverse selection (Lubatkin, Schulze et al 2005) that might rise in family owned companies.

The family company literature identifies the means by which a family company may provide both economic and welfare benefits to family members. In both the agency and the stewardship literature, the potential for family altruism to be expressed through strategic decision making is noted (Schulze, Lubatkin et al. 2001, Lubatkin, Schulze et al. 2005, Eddleston and Kellermanns 2007). Different views are expressed regarding the benefits or otherwise where such altruism is found. Johannisson and Huse (2000) have discussed how different ideologies will drive strategic decision making in family companies and note the attention some family companies may pay to family welfare rather than wealth maximisation. Carney (2005) has noted that particularism, one source of competitive advantages arising to family companies, may reflect family nepotism and altruism as a conscious strategic choice. There is also the considerable literature concerned with socioemotional wealth and its focus on family centred non-economic benefits (Gómez-Mejía, Haynes et al. 2007, Berrone, Cruz et al. 2012). The 'dark side' to altruism has been highlighted in the literature review, which from an agency perspective may lead to undesirable outcomes including free riding, shirking and the provision of unearned or above market rewards. It is suggested that second and third generation companies are the product of selection bias. Their survival is posited on their ability to develop appropriate governance practices and institutionalise self-restraint (Lubatkin, Schulze et al 2005).

All three case studies have demonstrated a heightened awareness of the need to limit the family's access to benefits arising from engagement with the company. The analysis above has

noted a number of similar themes in the dialogue with different family members in each company regarding the employment of family members, the overriding one being the need to restrict access. In none of the case studies are significant numbers of family members engaged as employees, managers or board members. In all cases, the view has been expressed that family members should only be engaged on the basis of merit. This reflects a conscious wish to avoid issues of moral hazard, hold up and adverse selection in relation to the employment of family members in the company.

Company A is a particular example of how relational governance mechanisms may be employed to protect the company from the negative consequences of altruism. It was reported in the analysis that part of the narrative set out by the fourth and fifth generation members of the controlling family group was the need to get rid of the 'useless uncles' when the fourth generation former Chair took control. In relational mechanism terms, the Shareholder letter expresses the wish that the company will consider providing opportunities for family members but that the family is clear that this should be on merit. The latest member of the family to be employed by the company, who was interviewed as part of this inquiry, was aware that he was on a company graduate scheme, rather than a family scheme, as one of three graduates and was competing for employment with his colleagues. The fourth generation chair noted, too, that the advantage of the scheme was to provide space for both the company and the family member to work out if they wished to continue the employer/employee relationship. The issue of adverse selection is directly addressed.

The family leaders were also very conscious of the impact altruistic behaviour towards family members might have on current non-family employees. The controlling family group shared a common view that they would fail to retain the services of good non-family managers if they brought family members in for reasons other than company need and merit. There was a particular consciousness around the issue of rewards, an area the family has sought to retain power and influence over through the use of relational governance mechanisms. In particular, the members of the family controlling group were aware of the balance they need strike between the remuneration paid to non-family mangers and the total dividend distributed to the family.

Further, the Charter provisions address governance as well as employment issues and the provisions allow the Family Council to appoint non-family members to fill the non-executive roles in the board should it fail to find suitable candidates in the family. This again stresses the

need for family members to possess the appropriate skills and attributes. Being a member of the family is not in itself sufficient.

The wish for family members to take an active role in the company is embedded in family culture and the dialogue reported in chapter 6 relating to the Next Gen and Family Assembly programmes reflects the work the family is doing to create knowledge and awareness across the younger members of the family. This reflects the role relational governance can play in succession (Suess 2014).

Lubatkin, Schultze et al (2005) noted the need for institutional self restraint to combat altruistic behaviours leading to moral hazard, hold up and adverse selection. Company A particularly demonstrates how institutionalised self restraint can be achieved through the use of formal relational governance mechanisms.

7.2.7 Discussion Point 7

The exercise of episodic power through relational governance mechanisms enable family business owners to control potential sources of process, task and relationship conflict, in order to maintain family shareholder consensus and unity

Shareholder diffusion through trans-generational transmission may lead to intra-family conflict and the abuse of position by majority shareholders (Lane, Astrachan et al 2006, Villalonga et al 2015). Process, task and relationship conflict may affect family members, either as family members working within the company or across the family shareholder group. Within the family shareholder group, such conflict may arise inter and intra-generations. Conflict may affect the ability of the family to reach consensus on matters affecting the company's operations and be detrimental to the long term interests of the company and the family (Jenn 1995, 1997). Kotlar and De Massis' (2013) work has emphasised the potential for relational governance mechanisms to help the family reach consensus at the bargaining stage and so develop a collective commitment to family company goals. Similarly, Sorensen's (1999) work on conflict management has suggested the potential for relational governance mechanisms to be vehicles for increased family shareholder collaborations.

Company A has provided an opportunity to examine the ability of relational governance mechanisms to manage conflict across a generationally diverse and diffused family shareholder group.

The analysis sets out the way in which the family has used contractual governance mechanisms to create differential class rights to address a major source of conflict affecting family relationships over a significant period.

The Charter, however, explicitly addresses intra-family relationships and sets out a series of expectations of family engagement and behaviour based on the controlling family group's statement of family values, consensus and conflict avoidance. Suess' (2014) propositions regarding family governance mechanisms include factors related to communication, family unity, conflict mitigation and resolution and goal alignment. All of these are applicable to the controlling family group's intentions in developing the Charter and the related mechanisms. The Charter, therefore, builds on the contractual governance mechanisms created in the past by formalising the relationship between the company and the family. Protocols are established formalising family shareholder engagement with the Family Council and the company board. The Charter is effectively a memorandum of agreement between family members regarding their engagement as shareholders.

Shareholders are required to positively sign up to the Charter and the shareholders' continuing support for the Charter was affirmed at the Family Assembly held in October 2019. In reality, few family members can have any expectation of involvement with the company or the Family Council, but they can participate in the election of Family Council members and can attend the bi-annual Assembly. The Assembly, but more significantly branch representative on the Family Council, are the only channels through which the individual shareholder can exercise voice. The residual power of the shareholders lies in the exercise of their votes at AGM, but the effectiveness of this power is limited by the allocation of voting rights between the core family branches, who control over 80% of the shareholding and the minority group. Even if members of the family acted in consort, they would be unable to pass an extraordinary resolution without the support of the 2007 ordinary shareholder block.

Overall, the actions taken by the controlling family group would indicate success in achieving behavioural integration (Camelo-Ordaz, Garcia-Cruz et al. 2014) and addressing the concerns raised by Steier (2001) regarding the changing nature of trust as a result of intergenerational transmission. It should be noted that the fourth generation decision to re-distribute shareholder family interests across the five branches removed a major source of conflict highlighted in the published company history. Current contractual arrangements continue to affirm the arrangements made at that stage in the company's life cycle and the action taken

reflects the arguments of Guinot, Chiva et al. (2015) regarding the reduction of relationship conflict through altruistic behaviours.

Company A has benefitted as its contractual and relational governance practices have enabled the company to negotiate the difficulties associated with diffused shareholding across multiple generations successfully. It is noted that the new relational mechanisms address horizontal power issues and provide explicit opportunities for 'minority' family shareholders to be involved. The two current family elected NEDs come from the 'minority' family group. Given the generational distances in this family, it is possible to posit that the sixth generational leadership group, once it emerges, may be drawn from different branches of the family. This would further reflect Salancik and Pfeffer's (1997) observations and reflect a more diffused power base.

There is a further aspect to the conflict mitigation role of relational governance mechanisms. The analysis of the Charter would suggest that the family has used relational governance to go beyond merely delineating relationships intra-family and between the family and the company. The impact of the diffusion of shareholding through inter-generational transmission has been identified above. Work on the lineal progression of family companies (Gersick, Davis J.A. et al. 1997, Lane, Astrachan et al. 2006, Le Breton-Miller and Miller 2013) has noted the weakening of family bonds as transmission passes into the cousin consortium stage. In effect, at the fifth generation stage or more, there will be the potential for a family of strangers to represent the family interest in the company. Suess' (2014) propositions have included the use of relational governance in creating ties which might otherwise not be present. The question arises in the context of a group of strangers related only by blood: what does the notion of 'family' actually mean?

A final point to make, therefore, regarding the contribution relational governance makes to conflict management relates to the normative use of relational governance to define the very notion of 'family' in the context of a family of strangers. It is argued that relational governance mechanisms have been used by Company A to both define the nature of relationships, and also state a set of family values, family culture and the meaning of family consensus. The very nature of the family, its values and its behavioural expectations, have been characterised in sections of the Charter, regardless of their actual relationship to the individuals themselves. In the context of Johannission and Huse's (2000) observations, for example, it is as if the controlling family group have determined the ideology or worldview of the company through

the Charter provisions to address the constructive tension and the potential for conflict referred to by these authors. It is posited that the relational governance mechanisms have been used to construct a particular conception of the family, a construct created by the controlling family group to enable it to manage family and company relationships.

As a result, it is posited that the family element of the Tagiuri and Davis (1996) model could be re imagined as follows:

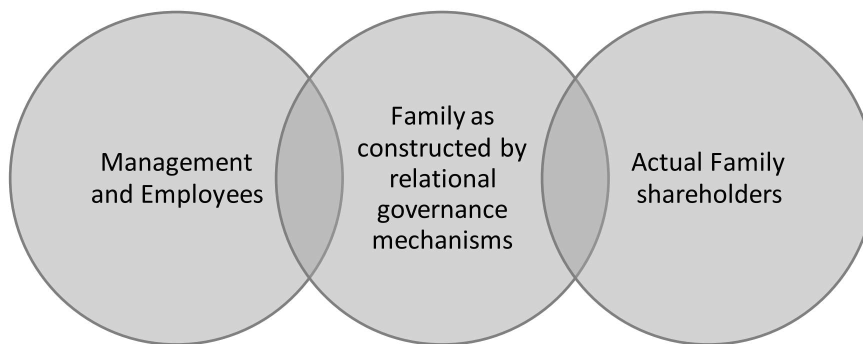

Figure 11: Re-imagined Family Relationships

In the middle circle the constructed notion of the family is defined by the controlling family group and realised through the relational governance mechanisms. The relational governance mechanisms establish how both the company and the actual family members will interact. The notional family serves to provide identity for the diffused family in terms of its relationship to the company and to itself, with the terms of engagement being established through the governance mechanisms, both contractual and relational, but in particular, through the Charter. This re-statement of relationships adds to Suess' (2014) propositions regarding the role of relational governance. Specifically, it notes that such mechanisms may be used to construct a notion of the family that forms a common basis for engagement and identity between potential strangers associated only through blood-lines, adoption or marriage.

7.2.8 Discussion Point 8

Relational governance mechanisms can enable family shareholders to retain power over decision management and decision control and cousin consortium companies may therefore continue to enjoy the benefits of parsimony, personalisation and particularism despite the significant involvement of non-family members in management and the board.

Carney(2005) has argued that the competitive advantages enjoyed by family owned companies, arising from the characteristics of parsimony, personalisation and particularism, are lost through the 'professionalization of management' and the resulting loss of family shareholder power over decision management and decision control.

The characteristics of parsimony, personalisation and particularism give rise to two sources of competitive advantages, the social capital arising from the unique family relationships within the firm and the ability to make quick investment/disinvestment decisions. Family companies have the advantage of institutionalising these sources of advantage but Carney notes they may be dissipated where non-family equity is sought or non-family managers are brought into the company. The involvement of non-family members is referred to as 'professionalising' management.

The basis of Carney's argument reflects the conceptions of family power and influence noted above in relation to the F-PEC and the FIFS scale, that being, that control is based on the notion of the physical dominance of management and control. This once again questions the location of decision management and decision control based on the separation of ownership and control.

If it is accepted that relational mechanisms may reflect alternative mechanisms through which the family may retain power and influence then it may be argued that decision management and decision control may be retained by the family shareholder group and the competitive advantages arising to family companies may not be lost, even though management and governance is dominated by non-family members.

The narrative in all three case studies reflected an entrepreneurial outlook that would suggest the efficiency and potential for opportunistic investment referred to by Carney (2005) remains present in these companies. In Company A, for example, the fifth generation led the sale of the company's core business in 2005 and the re-orientation of the company towards

manufacturing and away from commodity trading. One of the most profitable parts of the business started as a small investment project initiated by a fifth generation family member as a side investment project. In Company B, the fifth generation family shareholder spoke of how the business grew reputation on the back of his father's expertise in a new area of trading, and he himself introduced new business lines and opened new branches after joining the company. In Company C, the sixth generation member who joined the company was attracted by the dynamic nature of company and its ambitions for the future.

Based on the narrative in all three companies, and discussion point 1 set out above, it is argued that the retention of decision management and decision control by the family through relational mechanisms makes it possible for the family to retain potential access to the benefits of parsimony, personalisation and particularism. The company, therefore, continues to have access to the competitive advantages highlighted by Carney.

7.2.9 Discussion Point 9

Current governance regulations and family company literature do not recognise the Articles of Association as alternative sources of episodic power to the board, which can be employed as additional mechanisms to address horizontal agency issues in family owned companies.

Chapter 2 has set out in detail the Wates Principles (2018), the governance regulatory provisions affecting large UK private family owned companies. These provisions have been shown to mirror provisions developed in the UK PLC sector and promote the primacy of the board as the major contractual governance mechanisms. The policy makers' focus is reflected in the academic literature and Hung's (1998) typology has set out the multi-theoretical perspective attaching to board role, including the monitoring and control role established to address agency issued arising from the separation of decision management and decision control (Fama and Jensen 1983). The control and monitoring role of the board has been particularly developed because of the influence of the agency analysis on the development of governance frameworks. As noted in chapter 2, however, policy makers may be challenged on two grounds.

First, in the case of Companies A and C the analysis in chapters 5 and 6 has highlighted the additional contractual mechanisms employed by the companies to manage the company and family relationships. These are not contemplated in current governance regulations but are additional sources of episodic power. Two particular functions have been noted. First, the

Articles of Association control who may hold shares in the company and on what terms shares may be transferred. The affect of the provisions in both companies is to prevent shares being alienated and to maintain family control of ownership. Secondly, in the case of company A, the Articles have been used to create differential share rights which determine power relationships intra-family. Further, in the absence of any one controlling shareholder or group, differential class rights have been used to achieve consensus across diffused shareholder group and to manage shareholder voice. The articles can be seen, therefore, as additional mechanisms through which a number of agency issues can be addressed.

In terms of the bases of power, the Articles of Association legitimise the control exercised by the board over the composition of the shareholder body and define the means, scope and extent of that control (Dahl 1957: French and Raven 1959).

Secondly, in Company C, the Articles of Association are further used to prevent the diffusion of shareholding across the increasing numbers of sixth and seventh generation family members by setting minimum limits on the number of shares transferred.

The response to this restriction by family shareholders has been the proliferation of the creation of family trusts with multiple beneficiaries. A perceived danger, on the part of the leaders, is the potential for family trusts to merge to create a single significant blockholder within the shareholder structure. The power issues around minority blockholders, and in particular the influence of such blockholders on reward policy, has been explored by Cacciotti and Ucbasaran (2018) and Fattoum-Guedri (2018). These works argued that the participation in ownership of multiple generations leads to greater diversity of perspectives creating a potential for conflict over the distribution of resources. Furthermore, the presence of minority family blockholders acting in concert could threaten the authority of the controlling family group. The response to this perceived danger by the family leaders of company C has been to amend the Articles to give power to the board to allow or deny a proposed transfer into a family trust and thus prevent the development of a single significant shareholding.

These examples illustrate the way in which the Articles of Association may be a significant alternative source of power through which intra-family and intra-generational relationships may be regulated to address horizontal agency issues and the potential for conflict to arise.

7.3 Conclusion

This chapter has stated the theoretical contributions the thesis makes through the provision of working hypotheses arising from the analysis of the three case studies, which are presented as discussion points. These are a basis for rethinking theoretical perspectives in future research. The discussion points presented reflect a series of propositions relating to the observed inter-play of governance and the exercise of family power. The main working hypothesis arising from the examination of the three case studies is that relational governance mechanisms can be an additional source of episodic power in multi-generation family owned companies. This enables family shareholders to maintain power and influence over specific aspects of decision management and decision control in the company. This working hypothesis has additional theoretical implications in relation to the management of agency issues within the company and the family, the applicability of the socioemotional wealth model to cousin consortium companies, the familiness literature and Carney's (2005) characterisation of competitive advantage in family owned companies. In particular, current theories conceptualising family power and influence only in the context of the family's physical dominance of management and the board fail to take into account the potential for relational governance mechanisms to be an additional or alternative source of family power. This thesis has shown that family power and influence need not diminish because of shareholder diffusion, the involvement of non-family managers and board members and variable levels of interest in the company across the family shareholder group. Specifically, cousin consortium companies may still benefit from cultures, attitudes and modes of working that characterise family owned companies. Culture and values may still reflect stewardship rather than agency imperatives, company decisions may still show a preference for loss aversion and the conditions providing competitive advantage may still be retained.

An understanding of the potential for relational governance mechanisms to enable the family to retain power and influence may help companies at an earlier life cycle stage adopt strategies that enable the transmission of the company across generations and the recruitment of talented non-family members without necessarily losing family shareholder control. The discussion points also note the potential role of relational governance in addressing horizontal and vertical agency issues in the company and the family, addressing problems linked to family altruistic behaviour and managing sources of family conflict. For policy makers, the working hypotheses presented through the discussion points challenge the assumptions regarding the primacy of the board as the main governance mechanisms in a

family owned company. The inquiry has shown that even in large family owned companies, the board's authority and scope of decision making may be limited by formal and informal relational governance mechanisms. How and where decision making takes place may not be transparent and may take place through the formal and informal contractual and relational governance mechanisms other than the board.

No one structure for governance has emerged from the case study analysis. The heterogeneous nature of the family companies has been replicated in the governance structures created and the objectives the mechanisms seek to achieve. The case studies have revealed in different ways how governance, in both or contractual and relational terms, has the potential to create multiple pathways through which cousin consortium family shareholders may continue to exercise power and influence over the family asset.

Chapter 8: Conclusions and Further Research

Adopting a case study methodology, the aim of this inquiry has been to investigate two questions:

a) What forms of contractual and relational governance mechanisms are adopted by fifth and more generational private family companies? and
b) How do governance mechanisms enable business owning families exercise power and influence over company decision making?

As part of this research the inquiry has addressed:

a) How do governance mechanisms enable business owning families exercise power and influence over the company's strategic goals
b) How do governance mechanisms influence the management of intra-family relationships, and in particular conflict and
c) How do relational governance mechanisms influence company decision making

In chapter 1 it was noted that the work of Tagiuri and Davis (1996) discussing the uniqueness of family companies relationships referred to first and second generation family owned businesses but did not address the issues arising in multi-generation family companies.

This inquiry has sought to examine the continuing power and influence of the family in multi-generation companies where;

a) family shareholding may be diffused across different family branches and multiple generations;
b) no one individual may have a majority shareholding and issues arise regarding the location of power and influence in the family and in the company;
c) as a result of diffusion family emotional bonds may be weak across multiple family branches and there are issues of identity and belonging; and
d) the family may or may not be involved in the management and governance of the company and non-family members may hold such positions.

In these circumstances, how does the family retain power and influence over company decision making? The inquiry has examined how, at the fifth or more generation stage, different types of contractual and relational governance mechanisms help the family retain power and influence.

The literature review has set out

a) relevant literature from a number of different theoretical perspectives that has presented a conception of family power for multi-generation family owned companies drawn from the governance and 'familiness' literature. In this literature family power is conceptualised as a function of the family's physical dominance of management and the board;
b) further, it has demonstrated how the logic of this conceptualisation has influenced a number of theoretical perspectives, particularly in the context of agency, socioemotional wealth and family company competitive advantage literature.

The thesis has challenged this conception of family power and influence on the basis that it fails to reflect how relational governance mechanisms enable the family to retain power and influence in circumstances where the family does not dominate management and the board.

The methodology chapter has set out the basis of case studies selection and has noted how the heterogeneous nature of the companies has provided an opportunity to examine family power and influence in companies where shareholding is both diffused and concentrated, where either one or multiple families are involved as shareholders and the family may or may not have established formal relational governance mechanisms. The selection process has purposely excluded any company with significant non-family equity capital investment.

The diversity of the case study companies has enabled thick descriptions to emerge to inform working hypotheses, which are the basis of the theoretical insights presented in this thesis. The theoretical insights are presented on the basis of their transferability to similar contexts and circumstances. The working hypotheses, as presented as discussion points in chapter 7, also provide insights into the opportunities for future research.

The analysis and discussion has highlighted the diverse nature of the case study companies. No single governance structure has emerged from the analysis. This stresses the conditional and contextual nature of the governance mechanisms employed in each case study. The variety of

mechanisms employed by the companies has been highlighted, as have the differing roles similar mechanisms, particularly the board, perform in each.

The case studies have also provided evidence of the active involvement of family members in the affairs of the case study companies. All three companies were identified by the respondents interviewed as family companies and evidence was presented that this attribute was shared across the shareholder base and with both customers and employees. Yet, contrary to the expectations set out in the F-PEC, FIFS and FIBER scales (Klein, Astrachan et al 2005; Frank, Berrone, Cruz et al.2012; Frank, Kessler et al 2017), power and influence was not exercised through the family's domination of either management or the board. Very few family members were employees or executive managers and only a small number, given the potential family pool in two of the case studies, were engaged in contractual governance. The means by which the family shareholder group continued to exercise power and influence forms the basis of the contribution this thesis makes.

8.1 Contribution

The case study analysis has explained how formal and informal relational governance mechanisms are sources of episodic power in multi-generation family owned companies which enable the family to exercise power and influence over company decision making. This is not recognised in the governance regulations nor in current governance literature and the finding challenges the conception of family power presented in current family company literature. This is the thesis' main theoretical contribution.

The conception of family power and influence based on the family's continued physical domination would deny the family any control over the company where these conditions were not met. This is counter-intuitive in the context of the case studies and when tested failed to explain the continued influence the family had over company decision-making.

The finding in this thesis regarding the role of formal and informal relational governance mechanisms is a more compelling explanation of the continued power and influence of the family in complex multi-generation companies. In particular, it accommodates not only the impact of the disposition of power through formal mechanisms such as a Family Council and the Family Charter, but recognises the reality of power exercised by individuals or groups of family members within and around a company which may limited the decision making powers

of the board. As the analysis has shown, the family leaders' power is based on the family shareholders' acceptance of their leadership role.

Challenging the current conception of family power in family owned companies has implications in a number of theoretical areas where the conception has been central to the analysis. In particular, the thesis addresses theoretical issues in relation to

a) The agency role of relational governance mechanisms;
b) The application of socioemotional wealth theory in fifth or more generation family companies; and
c) The familiness literature and the family company life cycle literature.

8.1.1 Agency Theory

In an agency theory context, the separation of ownership and control underpins the imperative to create formal board structures to monitor and control the activities of management. Fama and Jensen's (1983) analysis of the divergence of decision management and decision control reflects the alternative roles ascribed to management and the board. In the context of family companies, the familiness conception of power and influence defines management and board involvement in relation to family presence. Family shareholder control, for example, of the monitoring and control functions performed by the board, is denied where the family does not physically dominate board membership. Lack of shareholder involvement adds to existing vertical agency issues existing between the board and management and creates horizontal issues between the family and the company.

The analysis has demonstrated that by exercising episodic power through relational governance mechanisms the family may address both horizontal and vertical agency issues between the family and the company and within the company itself. As a result, the family continues to be involved in decision making in the company, either in collaboration with the board or to the exclusion of the board. Failing to appreciate this will result in an incorrect understanding of the disposition of power in and out of the company and the imperatives affecting company decision making.

One aspect of this, for example, is reflected in Carney's (2005) work on competitive advantage. He has argued that 'professionalising management' will diminish family influence and remove the competitive advantages arising to family companies. The analysis presented in this thesis provides an explanation why multi-generation companies may continue to display the

beneficial characteristics identified by Carney, even though non-family members manage and govern.

The thesis has also demonstrated how relational mechanisms have a further role to play within the company in relation to supporting self restraint with respect to altruistic behaviours and managing intra-family conflict. The discussion of board role in the literature review questioned the ability of the board to deal with intra-family horizontal agency issues affecting the company. Suess' (2014) perceived role of relational governance mechanisms denies them a role within the company. The thesis has challenged Suess' propositions by demonstrating that relational governance mechanisms have a role in the company. Retaining power and influence over remuneration and dividends, being involved or determining senior appointments, creating protocols for the appointment of family board members or employees are examples of the potential porous relationship between the board and relational governance mechanisms highlighted in this thesis.

The thesis has also identified the Articles of Association as a further form of contractual governance available to family companies to address intra-family and inter-generational horizontal issues.

8.1.2 Socioemotional Wealth Model

The thesis makes a significant contribution to our understanding of the reasons why multi-generation family companies may still display behaviours consistent with the behavioural agency analysis underpinning the socioemotional wealth model. This answers a number of questions raised by Berrone, Cruz et al (2021) into the maintenance of family endowments and the decision making preferences of multi-generation companies. The questions are raised by Berrone Cruz et al (2012) because of the conception of family power set out in the familiness F-PEC and FIFS scales and repeated in the FIBER scale. This latter scale, again, adopts a conception of power based on the family's physical dominance of management and the board.

The logic and application of this conception has significant consequences. The power and influence of the family over decision making is at the heart of the socioemotional wealth model. With power and influence the family can display loss aversion preferences predicted in the behavioural agency analysis. Without power and influence, the decisions will be made by non-family members whose decision making will be aligned to the risk aversion analysis of agency theory. If the family does not control management or the board, they cannot control decision making. Multi-generation companies that do not have physical control of

management or the board, therefore, fall outside the socioemotional wealth model. This is the position arrived at by Lim, Lubatkin and Wiseman (2010).

The analysis has shown, however, that this explanation of company decision making does not hold in the case study companies examined in this thesis. Family voice is still present, and the major family endowment noted in all three, the notion of family independence free from external capital, reflects the loss aversion preferences of the behavioural agency model. The FIBER scale itself is insufficient to explain the disposition of family power and influence in these companies as it fails to recognise how relational governance mechanisms are a means to retain power and influence.

The thesis, therefore, has provided an explanation of how the socioemotional wealth model can continue to apply to multi-generation companies that is not reflected in the current socioemotional wealth literature. Further, the absence of any reference to relational governance mechanisms in the FIBER scale suggests the need to revise the criteria of the Family control and influence dimension presented.

8.1.3 The familiness and life cycle literature

The challenge posed to the conception of family power presented in the familiness literature impacts on that and the family company life cycle model. In the family company life cycle literature, the life cycle is typically framed in three stages: the founder; the sibling; and the cousin consortium stage. By the fifth or more generation, the literature assumes that the company has reached the cousin consortium stage.

The fundamental issue raised in this inquiry is the impact of shareholder diffusion on family companies at the cousin consortium stage. The lifecycle literature (Gersick 1997; Lane, Astrachan et al. 2006; Le Breton-Miller and Miller 2013) has posited a series of consequences arising at the advanced cousin consortium stage, the main mischiefs being the potential for weaker family bonds with the company, the transfer of power to non-family members, and the greater potential for conflict. All are a result of shareholder diffusion. The literature argues that power and influence and familiness are notions best captured in the conception of family control based on the family's physical domination of either management or the board. This thesis has shown that this characterisation of family owned companies may not hold where formal and informal relational mechanisms are utilised by the family. This helps explain why the family in multi-generation family companies continues to exercise power and influence and regard themselves as family business owners despite the lack of involvement of the family

in management and governance. Companies in this inquiry would challenge anyone to question their self identification as family owned businesses yet the application of the F-PEC and FIFS scales fail to explain the family's access to power and influence in relation to both decision management and decision control.

The conception of family power and influence in the familiness literature needs to be revised to account for the access to power and influence available to the family through relational governance mechanisms. The life cycle literature needs, too, to reflect a more nuanced explanation to capture the potential for cousin consortium companies to remain within the control of the family as a result of the relational governance arrangements established, despite shareholder diffusion.

8.1.4 Empirical Contribution

This discussion recognises the theoretical contribution the thesis makes but an empirical contribution is also made. As noted in the abstract, the thesis examines an under-explored area in an under researched family sector. The empirical contribution has two aspects. First, the thesis has collected data from three fifth or more generation private family owned companies. Specifically, the inquiry has been able to examine the governance choices made by such companies to address governance issue arising over an extended period of time. Central to this has been an examination of family relationships in relation to both the company and the family itself. Secondly, the inquiry has sought to examine and explain the choices made in the context of family power and influence, the purpose being to understand the levers of power and influence open to family shareholders at this stage. The analysis demonstrates the heterogeneous nature of the companies, the governance choices made and the levers of power and influence open to the families and adds richness to our understanding of companies at this stage in their life cycle.

8.1.5 Implications for family businesses

The potential affect of trans-generational transmission – shareholder diffusion, the lack of a dominant shareholder, the weakening of family bonds and involvement and the engagement of non-family managers and board members – is the loss of family power and influence over the family asset. The literature has suggested that in extreme circumstances the family may be no more than an investor with the investment being run by non-family managers without reference to the preferences of the family. This thesis has shown, however, the practical

arrangements a family might make as it progresses through the generations and involves non-family members in management and governance in order to retain power and influence over areas of company decision making the family wishes to have control over. The thesis has highlighted the structural and behavioural aspects of this. Structurally, the family has a number of contractual and relational mechanisms available to it to manage the relationships between the family and the company and intra-family. The thesis has shown how both contractual and relational governance mechanisms can be employed to enable family voice to be exercised over company decision making. From a behavioural perspective, the discussion on power has shown how family members may acquire legitimacy within the company and use their will and skill to shape and influence company decision making through both formal and informal means.

From a policy perspective, the thesis has also discussed the limitations of the scope of current governance regulations, as set out in chapter 2, and the potential for the actual disposition of power and influence within a family owned company to be misunderstood. In particular, the failure to look beyond the board to recognise alternative sources of power and influence, particularly individual power and influence, may lead to a misunderstanding of power exercised over decision making outside of the formal board structures.

8.2 Limitations

Adopting a case study methodology, this inquiry has sought to provide insights into three family companies that have reached the fifth or more generation stage. The case studies have provided an opportunity for the researcher to construct a series of working hypotheses in relation to each case study. The researcher must highlight three main limitations.

First, given an ontological position of naturalism/constructivism, it is noted that the realities constructed in relation to case studies are subjective and subject to change over time. The constructions are not more or less true but are more or less sophisticated/informed. The choice of companies and respondents have informed the working hypotheses arising in relation to each case study and the researcher recognises the potential for the constructions to be made more sophisticated/informed based on contributions from other respondents. The limitations of the PhD process has required the number of respondents in each case study to reflect the time and space available. This has two aspects: increasing the number of respondents could have added to the data collected. The research design has sought to interview those within and outside of the family who could best inform the inquiry and

attention to the issues of trustworthiness and authenticity, referred to in chapter 4, have sought to ensure the sophistication and informed nature of the constructed realities. The collection of further data from additional family and non-family voices could be the objective of additional research.

The second limitation again relates to time and space. Data has been collected over a limited time period, but a longitudinal study could have led to a more nuanced analysis and could have further informed the questions raised above given that the case study companies, like many organisations, are in a state of continuous flux. In the case of Company A, the Charter is the latest governance intervention of a series over a number of years that have addressed the particular circumstances facing the family. Understanding how the broader family reacts to the Charter provisions in the medium-term would be of interest. Similarly, the transitional management arrangements in place in Company C are of significant interest involving, as they do, what the family leaders see as the temporary transfer of strategic leadership to a non-family MD. Observing and recording the development of the sixth generation family employee into the company and family leadership role would be instructive.

A third limitation is implicit in the research design. As discussed in chapter 4, the research design informing this inquiry posits an iterative process of purposive sampling, inductive data analysis, grounded theory and emergent design that continues until a point of redundancy has been reached. Reaching a point of redundancy is not possible in the context of a PhD inquiry, which is time-bound. The PhD process has enabled the researcher to engage with three fifth or more generation companies, on the basis that none are representative, and all are of interest in themselves. The analysis has revealed the heterogeneous nature of the case study companies, confirming the heterogeneous nature of family companies generally. Furthermore, the analysis of each has allowed specific working hypotheses. There will be other fifth or more generation family companies with other forms of governance arrangements which may provide opportunities to construct alternative realities and reveal other ways in which such mechanisms have been adapted to meet the needs of the family and the company. In particular, the forms of relational governance mechanisms adopted, the purpose of such mechanisms and their impact may differ. Different forms of governance exist, such as the family office, but these have not been subject to scrutiny because they have not been part of the governance arrangements of the case study companies adopted. Research into alternative relational governance mechanisms may provide further, rich insights, into the research questions posed in this inquiry.

8.3 Future Research

As noted, this has been an exploratory inquiry and the discussion points, informed by the working hypotheses, have presented areas where the inquiry has added to our theoretical understanding. Consistent with the methodology adopted, the theoretical observations reflected in the woking hypotheses might be regarded as emergent and new areas of research are opened up for additional testing as a result. These areas may provide additional insights into the interplay of governance and family power and influence and further add to theory.

The discussion points suggest a number of areas of future inquiry but there are some particular areas of interest to this researcher. The first relates to the case study companies. Continued involvement with the companies over an extended period of time will provide additional insights into intra-family and family/company relationships. In the case of Company A, for example, the embedding of the relational mechanisms created by the Charter and their impact on the disposition of family power and influence as the composition of the family controlling group changes will enable reflection upon the substantive impact of those mechanisms. In the case of Company C, it would be illuminating to observe how the family negotiate the succession issue it faces and how the family react to new family leadership. There is the potential, for example, for more formal relational governance mechanisms to be adopted in Compnay C in response to the power changes taking place in management and the family.

Furthermore, this research has noted the significance of the presence of a controlling family group. The analysis and discussion above has shown how governance mechanisms have been employed to enable the controlling group to exercise power and influence over both the family and the company. Understanding how such power and influence is vested in specific family members as companies move from the second to the fifth or more generation stage would provide insights into how individual family members acquire and retain such power. It would provide, for example, an opportunity to understand the nature and longevity of dynastic power and influence in fifth or more generation family companies and add to our understanding of the impact of informal relational governance mechanisms.

This research has also posited the notion that relational governance measures have been used normatively by the controlling family group to create a shared, constructed, notion of the

family. This has contributed to the legitimacy of those acting within agreed relational governance mechanisms. Further research could be conducted, involving both involved and non-involved family shareholders, to examine the meaning of family in the context of relational governance structures and the impact of such measures on their sense of family belonging and identity. This may examine identity in the context of the family company and reserach the contribution both the company and the family make to that identity. This could particularly focus on the nature of family values and the identification of such values in mechanisms such as family charters and protocols.

Finally, in the context of fifth or more generational wholly-owned private companies, additional forms of relational governance that exist but which have not been subject to scrutiny in this inquiry could be examined for their role and impact. These include, for example, family trusts and the influence of a family office. Further insights, through additional case study-based research, into how such mechanisms enable the family to exercise power and influence would be valuable to inform furture research agendas.

8.4 Conclusion

In summarising the analysis and discussion, this chapter has presented the contribution this thesis has made in both theoretical and empirical terms. The inquiry has argued that in order to understand the disposition of power and influence in multi-generation family owned companies it is necessary to understand how episodic power may be vested in relational governance mechanisms. This power may be exercised within both the company and the family and provides the family with continuing access to power and influence over company decision making despite the family's lack of dominance of management or governance. This re-conceptualisation of family power in multi-generation family companies has implications in a number of theoretical areas and the working hypotheses suggest areas for future research to test. The chapter has also sought to note the limitations of the thesis and highlighted some of the areas for further research.

Appendix 1: Berrone, Cruz et al's (2012) FIBER scale: Dimensions of socioemotional wealth

SEW Proposed Items	
Subscale	
Family Control and Influence	
	The majority of the shares in my family business are owned by family members
	In my family business, most executive positions are occupied by family members
	In my family business, nonfamily managers and directors are named by family members
	The board of directors is mainly composed of family members
	Preservation of family control and independence are important goals for my family business
	In my family business, family members exert control over the company's strategic decisions
Identification of Family members with the Firm	
	Family members have a strong sense of belonging to my family business
	Family members feel that the family's business success is their own success
	My family business has a great deal of personal meaning for family members
	Family members are proud to tell others that we are part of the family business
	Being a member of the family business helps define who we are
	Customers often associate the family name with the family's business products and services
Binding Social Ties	In my family nonfamily employees are treated as part of the family
	In my family business contractual relationships are mainly based on trust and norms of reciprocity
	My family Business is very active in promoting social activities at the community level
	Building strong relationships with other institutions is important for my family business
	Contracts with suppliers are based on enduring long-term relationships in my family business
Emotional Attachment of family members	Emotions and sentiments often affect decision-making processes in my family business
	Protecting the welfare of family members is critical to us, apart from personal contributions to the business
	In my family business, the emotional bonds between family members are very strong
	In my family business affective considerations are often as important as economic considerations
	Strong emotional ties among family members help us maintain a positive self-concept
	In my family business, family members feel warmth for each other
Renewal of Family Bonds through Dynastic Succession	
	Successful business transfer to the next generation is an important goal for my family business
	Family members would be unlikely to consider selling their family business
	Continuing the family legacy and tradition is an important goal for my family business
	Family owners are less likely to evaluate their investment on a short term basis

Appendix 2: Analysis: Mapping Process: First and final mapping headings, including the incorporation and allocation of the FIBER elements

Ist Level Analysis	**FIBER elements**		**Final Level Analysis**	**Allocation of FIBER elements to final level analysis criteria**
Ownership			**Ownership**	
Management				The majority of shares in my family business are owned by family members
Leadership				Preservation of family control and independence are important goals for my family business
The Board				Successful business transfer to the next generation is an important goal for my family business
Relational Mechanisms				Family members would be unlikely to consider selling their family business
				Continuing the family legacy and tradition is an important goal for my family business
Relational Dimensions				Family owners are less likely to evaluate their investment on a short term basis
1.Family – intra company			**Management**	
2.Family and non-family intra company				In my family business, most executive positions are occupied by family members
3.Family and company				In my family business, nonfamily managers and directors are named by family members
4.Intra family				In my family business, family members exert control over the company's strategic decisions
			The Board	
FIBER Scale Elements				The board of directors is mainly composed of family members
Family Control and Influence			**Decision Making**	

Ist Level Analysis	FIBER elements		Final Level Analysis	Allocation of FIBER elements to final level analysis criteria
	The majority of the shares in my family business are owned by family members			Emotions and sentiments often affect decision-making processes in my family business
	In my family business, most executive positions are occupied by family members			Protecting the welfare of family members is critical to us, apart from personal contributions to the business
	In my family business, nonfamily managers and directors are named by family members			In my family business affective considerations are often as important as economic considerations
	The board of directors is mainly composed of family members		**Intra-family relationships**	
	Preservation of family control and independence are important goals for my family business			In my family business, the emotional bonds between family members are very strong
	In my family business, family members exert control over the company's strategic decisions			Strong emotional ties among family members help us maintain a positive self-concept
Identification of Family members with the Firm				In my family business, family members feel warmth for each other
	Family members have a strong sense of belonging to my family business		**Family/Company relationships**	
	Family members feel that the family's business success is their own success			Family members have a strong sense of belonging to my family business
	My family business has a great deal of personal meaning for family members			Family members feel that the family's business success is their own success
	Family members are proud to tell others that we are part of the family business			My family business has a great deal of personal meaning for family members
	Being a member of the family business helps define who we are			Family members are proud to tell others that we are part of the family business
	Customers often associate the family name with the family's business products and services			Being a member of the family business helps define who we are
Binding Social Ties	In my family nonfamily employees are treated as part of the family		**Non-family/ stakeholder relationships**	
	In my family business contractual relationships are mainly based on trust and norms of reciprocity			Customers often associate the family name with the family's business products and services
	My family Business is very active in promoting social activities at the community level			In my family nonfamily employees are treated as part of the family
	Building strong relationships with other institutions is important for my family business			In my family business contractual relationships

Ist Level Analysis	FIBER elements		Final Level Analysis	Allocation of FIBER elements to final level analysis criteria
				are mainly based on trust and norms of reciprocity
	Contracts with suppliers are based on enduring long-term relationships in my family business			My family Business is very active in promoting social activities at the community level
Emotional Attachment of family members	Emotions and sentiments often affect decision-making processes in my family business			Building strong relationships with other institutions is important for my family business
	Protecting the welfare of family members is critical to us, apart from personal contributions to the business			Contracts with suppliers are based on enduring long-term relationships in my family business
	In my family business, the emotional bonds between family members are very strong		**Leadership**	
	In my family business affective considerations are often as important as economic considerations			
	Strong emotional ties among family members help us maintain a positive self-concept			
	In my family business, family members feel warmth for each other			
Renewal of Family Bonds through Dynastic Succession				
	Successful business transfer to the next generation is an important goal for my family business			
	Family members would be unlikely to consider selling their family business			
	Continuing the family legacy and tradition is an important goal for my family business			
	Family owners are less likely to evaluate their investment on a short term basis			

The final level analysis consists of the following headings summarising the grouping of the interview data:

a) Ownership
b) Management
c) The Board
d) Decision Making
e) Relationships
    a. Intra-family relationships
    b. Family/Company relationships
    c. Non-family/Stakeholder relationships
f) Leadership

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