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Governance in Private Family SMEs

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"If we work on marble, it will perish. If we work upon brass, time will efface it. If we rear temples, they will crumble into dust, but if we work upon immortal minds, and instill into them just principles, we are then engraving upon that tablet that which no time will efface, but will brighten and brighten to all eternity."

Daniel Webster

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LIST OF ABBREVIATIONS

ACC: Accountant
BoA: Board of Advice
BoD:Board of Directors
CEO:Chief Executive Officer
CoCEO:Associate CEO
EBM:External Board Member
ECEO:External CEO
ECEO-1:Previous External CEO
ECEO-2:External CEO before ECEO-1
GTM:Grounded Theory Method
KDM:Key Decision Maker
SEW:Socio-emotional Wealth
SME:Small and Medium-sized Enterprises
VC:Venture Company

Dankwoord (acknowledgements)

Een '*lang-verwacht* moment' zegt men. *Lang?* Vanaf het beginperspectief: ja! Achteraf bekeken: helemaal niet! *Verwacht?* Even vaak niet als wel, om eerlijk te zijn. Vooral dat laatste aspect doet vermoeden dat het voltooien van dit doctoraat niet van een leien dakje is gegaan. En terecht. Het was een traject met laagtepunten en hoogtepunten, vertragingen en versnellingen, teleurstelling en euforie. Maar aan het einde van dat woelige traject is er dat unieke moment: dat moment van voldoening. Voldoening dat je hebt doorgezet, dat je het hebt klaargespeeld. Het voorgaande is een korte en bondige omschrijving van wat ik voel aan het einde van dit doctoraatsproject. Maar ere wie ere toekomt: ik had dit nooit kunnen voltooien, zonder een aantal mensen rondom mij, die ik bij deze gelegenheid dan ook van harte wil bedanken.

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Samenvatting (summary)

De meeste bedrijven, zowel in België als de meeste andere landen, zijn familiebedrijven. Doorgaans zijn deze familiebedrijven KMO's. Het economische belang van private familiale KMO's kan dus niet ontkend worden. Jammer genoeg zijn ook deze bedrijven regelmatig nog onderhevig aan ondermaatse prestaties of zelfs falingen. Het is daarom goed te weten dat governance van wezenlijk belang kan zijn bij het overleven en de prestaties van deze bedrijven. In het verleden is er reeds veel onderzoek verricht naar governance, maar dit was vaak toegespitst op grote, beursgenoteerde bedrijven. Omdat private familiale KMO's bepaalde unieke karakteristieken bevatten, kunnen de resultaten van onderzoek gebaseerd op grote, beursgenoteerde bedrijven, niet zomaar klakkeloos overgenomen worden voor deze kleinere private ondernemingsvorm. Hoewel het onderzoek naar governance in kleinere, private, of familiale ondernemingen de laatste decennia aanzienlijk is toegenomen, is het nog een vrij nieuwe discipline, en blijven er nog veel vragen onbeantwoord. Daarom is er nood aan een beter inzicht in de governance van deze bedrijven. Dit onderzoek spitst zich daarom toe op het 'hoe en waarom' van governance in private familiale KMO's.

Bestaand onderzoek leert ons dat de focus binnen deze topic vooral ligt bij de raad van bestuur. Op zich is dit niet verwonderlijk omdat een actieve raad beschouwd wordt als het governance mechanisme bij uitstek om effectieve governance uit te oefenen. Uit de praktijk blijkt nochtans dat een grote meerderheid van private familiale KMO's geen actieve adviesraad of raad van bestuur heeft. Er worden ook wel andere governance mechanismen aangehaald in de huidige literatuur, maar in veel mindere mate. Het onderzoek naar de raad van bestuur in private, familiale en kleine tot middelgrote ondernemingen, bekijkt enerzijds het effect van de raad van bestuur op de prestaties van de onderneming, en anderzijds de factoren die bepalen hoe een raad van bestuur is samengesteld en functioneert. Op basis hiervan, worden dan aanbevelingen geformuleerd naar samenstelling en functies die een raad van bestuur in deze bedrijven zou moeten hebben. Jammer genoeg kampt dit onderzoek nog vaak met onbesliste of tegenstrijdige resultaten. Recentelijk echter is in het onderzoek dat gericht is

naar de factoren die de samenstelling en werking van de raad van bestuur beïnvloeden, het inzicht ontwikkeld dat deze factoren de kenmerken van de raad van bestuur waarschijnlijk niet rechtstreeks beïnvloeden. Resultaten geven aan dat de kenmerken van de raad van bestuur gebaseerd zijn op noden van het bedrijf naar de raad van bestuur toe, en deze noden worden op hun beurt bepaald door een aantal factoren.

Maar naast de raad van bestuur, beschikt een private familiale KMO dus ook nog over vele andere governance mechanismen. Vele van deze mechanismen kunnen naast een raad van bestuur staan, maar kunnen deze raad van bestuur ook vervangen voor bepaalde taken. Dit betekent dus dat een private familiale KMO voor bepaalde noden de keuze heeft tussen verschillende governance mechanismen. Deze keuze bepaalt dan hoe de governance in dat bedrijf er uit ziet. Dit wil zeggen dat, hoewel het een belangrijke stap is in de goede richting, de noden van de private familiale KMO niet volledig kunnen verklaren hoe de governance in dit bedrijf wordt georganiseerd.

Daarom richt het onderzoek in dit doctoraatsproject zich naar de variabelen en (micro)processen die plaatsvinden tussen het ervaren van een nood, en de implementatie (of niet) van een bepaald governance mechanisme in private familiale KMO's. Om dit te onderzoeken, werd er een kwalitatief onderzoek uitgevoerd bij zes private familiale KMO's. Op basis van interviews, documenten en archieven werden de gegevens verzameld. Volgens de methode van de 'Grounded Theory Method', werden de data gecodeerd en geanalyseerd. Dit resulteerde in de ontwikkeling van concepten en relaties tussen deze concepten, wat uiteindelijk heeft geleid tot een conceptueel model.

De resultaten van dit onderzoek suggereren dat de governance in private familiale KMO's bepaald wordt door de keuze van de primaire besluitvormer in het bedrijf. Deze primaire besluitvormer is vaak één persoon: de eigenaar die tevens ook CEO is. Maar het kunnen ook meerdere personen zijn, die samen de belangrijkste beleidsbeslissingen nemen. In private familiale KMO's waar er een VC-investeerder aanwezig is, behoort deze investeerder ook tot de primaire besluitvormer. De bovengenoemde keuze van de besluitvormer, is gebaseerd op de noden die door hem/haar/hun worden waargenomen, en wordt beïnvloedt door de institutionele omgeving en -indien er geen VC-investeerder aanwezig is- de onafhankelijkheidsindex van de besluitvormer. Deze onafhankelijkheidsindex is een samenstelling van het leerkader en het niveau van niet-economische doelen van de besluitvormer. Het leerkader verwijst naar hoe open een individu is ten opzichte van meningen die afwijken van de zijne/hare. Het niveau van niet-economische doelen verwijst naar de niet-economische doelen van de besluitvormer, die niet bijdragen aan het functioneren van het bedrijf. De resultaten van ons onderzoek suggereren dat besluitvormers met een hogere onafhankelijkheidsindex minder gemakkelijk zullen opteren voor systematische governance mechanismen (zoals een raad van bestuur), dan besluitvormers met een lagere onafhankelijkheidsindex. Met andere woorden: deze onafhankelijkheidsindex helpt verklaren waarom private familiale KMO's met dezelfde noden en institutionele omgeving, toch andere governance praktijken zullen implementeren. We geven hiermee meer inzicht in het tot stand komen van de governance praktijken in private familiale KMO's, en een bijkomende verklaring voor de verschillen in governance tussen private familiale KMO's onderling. Raadgevers die advies verlenen aan private familiale KMO's moeten dus rekening houden met de bevinding dat deze bedrijven geen gevolg zullen geven aan hun aanbevelingen met betrekking tot governance, indien de besluitvormer de nood voor ervoor niet ervaart. Ze moeten ook rekening houden met de onafhankelijkheidsindex van de besluitvormer, want deze zal bepalen of er gedacht kan worden aan meer systematische governance mechanismen, of niet.

Ons onderzoek bevestigt ook dat alternatieve governance mechanismen een belangrijke rol spelen in private familiale KMO's. Dat huidig onderzoek naar governance in deze bedrijven nog vaak gedomineerd wordt door onderzoek naar enkel de raad van bestuur, kan dus eigenlijk niet gerechtvaardigd worden. Ook voor de praktijk betekent dit dus dat aanbevelingen naar private familiale KMO's toe, meer blijk moeten geven van deze alternatieven, want zij kunnen een belangrijke bijdrage leveren tot de optimale governance structuur in deze bedrijven.

CHAPTER 1: INTRODUCTION

1.1. Introduction

The objective of this study is to enhance the understanding of governance in private family SMEs by delivering more insights into the processes that shape the governance in this type of firms.

In this chapter, we will first designate the importance of governance in the context of private family SMEs. Then we specify the research question guiding this study and the research approach that will be used. Further, we introduce and define the key concepts: private family SMEs and governance. And lastly, we end with an outline of the remainder of this study.

1.2. Governance in private family SMEs as research topic

Family firms play a dominant role in countries around the world (Villalonga et al., 2006; IFERA 2003; Claessens et al., 2002). Astrachan et al. (2003) estimate that between 3 million and 24.2 million US firms are family-owned and are responsible of 89% of total tax returns, 64% of GDP and 62% of the employment in the US. For the UK (Institute for Family Business 2008; Westhead et al., 1997) and Spain (Jaskiewicz et al., 2005), comparable results are found. For Germany, it is estimated that 95% of all companies could be considered family businesses, responsible for 41,5% of all sales and for 57,3% of employment (Haunschild 2010; Institut für Mittelstandsforschung 2007). And for Belgium, it is estimated that 70% of businesses are family businesses (IFERA 2003) which account for 55% of Belgium's gross national product (Instituut voor het Familiebedrijf) and 45% of the employment (Lambrecht and Molly, 2011). Due to the fact that most family businesses are SMEs and most SMEs are family businesses (Johannisson et al., 2000; Corbetta et al., 1999; Donckels et al., 1991), family SMEs encompass large collective power (Curran et al., 2001). On top of that, most firms are privately held (La Porta et al., 1999). So the economic impact of private family SMEs worldwide cannot be denied.

Corporate governance is able to create value for firms (Carney et al., 2003; Carney, 2005). It is interwoven with the strategic management process (Sharma et al., 1997) by means of goal formulation, and strategy formulation, evaluation and control. Governance in private family SMEs however differs significantly from that in other firms. First of all, the family aspect provides a unique governance context (Mustakallio et al., 2002; Randoy and Goel, 2003; Steier et al., 2004; Bartholomeusz et al., 2006; Tsai et al., 2006; Chrisman et al., 2002; Carney, 2005). Due to the overlap of family, business and ownership, family members often have to serve multiple roles which result in blurring governance relationships (Mustakallio et al., 2002). Governance practices in family and nonfamily firms therefore differ from each other (Bartholomeusz et al., 2006; Steier et al., 2004). But also the size aspect and the aspect of not being listed contribute to the uniqueness of their governance context as will be illustrated further in this study.

This implies that prescriptions for large, listed nonfamily firms cannot just be transferred to their private family SME (Daily et al., 1992) counterparts (Corbetta et al., 2004; Lane et al., 2006). In fact, the governance practices suiting for the first mentioned group of firms may even be harmful to private family SMEs (Lane et al., 2006). For example, the prescription for large, independent boards that are able to act separately from management may negatively affect small family firms that would benefit from the advisory capacity of boards. Therefore, research on governance in private family SMEs should be grounded on the unique characteristics of these firms (Mustakallio et al. 2002), taking into account their different governance requirements (Corbetta et al., 2004).

Scholars have recognized this importance of family firms. Research on family firms has gained little attention until the 1980s (Heck et al., 2008) but has gained increasing interest of scholars in recent decades (Craig et al., 2009; Moores, 2009; Heck et al., 2008; Sharma, 2004). It therefore is still a quite young scholarly discipline (Siebels et al., 2012). But research on small

(Gabrielsson, 2007) private (Mustakallio et al., 2002) firms has remained quite limited in comparison to their large public counterparts (Voordeckers et al., 2007; Gabrielsson et al., 2004).

Within corporate governance research, the board of directors is the dominating topic of focus (Voordeckers et al., 2007; Van den Heuvel et al., 2006; Gabrielsson, 2003), thus also within the research on governance in private family SMEs. This is not surprising, since the board of directors is considered as one of the most imperative governance mechanisms, also for family SMEs (Van den Heuvel et al., 2006). However, boards are not the only aspect of governance (Uhlaner et al., 2007).

So there is the economic importance of private family SMEs and the possibility of corporate governance to contribute to the value of these firms on the one hand. On the other hand, there is the relative scarcity of research on governance, especially governance interpreted more widely than boards of directors in this type of firms. Therefore, we argue that research on governance in private family SMEs is an interesting research topic.

1.3. Research question, goals and approaches

So governance literature is dominated by literature on boards. In this literature, boards are mostly discussed in terms of board features like board composition, board structure, board processes, board roles and board typologies.

Board composition can refer to the size of the board, the outsiders ratio, minority participation (Zahra and Pearce, 1989) and the different competences and characteristics among the board members[1] (Huse, 2005). Board composition has been explained and prescribed from different theoretical perspectives, with often different suggestions on how a board should be composed. For example, from an agency perspective, larger,

[1]This means that we integrate the competence and characteristics of board members in the concept 'board composition', as opposed to Zahra and Pearce (1989), who treat these features separate from board composition, under the concept 'board characteristics'.

independent boards are prescribed. From a stewardship perspective, smaller boards with more affiliated outsiders are proposed. For family firms, there is one aspect of board composition that dominates the literature: involvement of outsiders (Bettinelli, 2011). Independent outsiders have been recommended for a long time, even for family firms. However, more recently it is suggested that outsiders can be both positive and negative to family firms. Overall, empirical findings on board composition remain mixed and sometimes contradictory and conclusions about factors determining board composition remain indefinite (Markarian et al., 2007).

In terms of board roles, the control, service, resource and strategy roles can be distinguished. Recent literature on board roles is merging increasingly towards a multitheoretic view where different board roles are integrated. However, current literature does not provide enough insights into how board roles and behaviors vary across different family businesses (Bammens et al., 2011).

Different mixes of board composition and board roles lead to different types of boards. For a board to be able to contribute to the value of an organization however, it has to contain certain features so it can perform certain roles. This means that particular board types contribute more than others. This level of contribution is often conceptualized as the level of board empowerment. Because of this important role of boards in organizations, a lot of research has been dedicated to contingencies that influence board features and therefore board empowerment. This research however, has not always shown consistent results (Fiegener, 2005) and knowledge about the influence of critical contingency factors on board empowerment in small firms remains limited to date (Gabrielsson, 2007; Huse and Zattoni, 2008).

In sum, in the research on factors that determine board composition, board roles and board empowerment in private family SMEs, a lot of questions are still unanswered. In other words, additional insights into the antecedents of these board features is needed.

More recently, authors are pleading to look at the needs of the company to explain and prescribe board features. Bammens et al. (2008) found that board task needs mediate the relationship between a certain contingency and a certain board feature. Although it is only a first study, the insight of this mediated relationship is already an important step towards a better understanding of the antecedents of board features. It may explain part of the mixed or contradictory results of earlier research on this topic. But several questions remain to be answered.

But next to this vast amount of literature on boards, a substantial part of governance literature also describes or prescribes other governance mechanisms in private firms, family firms, and/or SMEs. It is argued and illustrated that these other governance mechanisms may fill in certain needs in these companies as well. Some of these needs may be needs that can also be fulfilled by boards.

This means that private family SMEs sometimes have to choose between different governance mechanisms to fill in a certain governance need. By what is known in current literature, it cannot adequately be explained why and how a private family firm chooses a particular governance mechanism to fill in a governance need that can be fulfilled by several other governance mechanisms as well. In other words, there is no knowledge on the microprocesses that explain how the choice of governance mechanisms is made in private family SMEs. A better understanding of these antecedents is important for predicting the effectiveness of the governance practices (Huse, 2000; Lynall et al., 2003). Therefore, the core research question guiding this study is:

"What happens within the private family SME between the arising of a governance need and the implementation (or not) of a particular governance mechanism, and why?"

Our goal is to elaborate existing theory by achieving more insights into these intermediate processes. Therefore, we aim for building a mid-range theory that is grounded in empirical data. We strive to achieve this by formulating hypotheses that relate to the research context and that offer the best fit to the phenomenon under study. Mid-range theory building is based on analytic (instead of statistical) generalization where previous developed theory is used as "a template with which to compare the empirical results of the case study." (Yin, 1989, p. 38). So although the empirical testing is not part of this study, we aim to formulate the hypotheses in a way that this can be done in a future study if statistical generalization is desirable. To achieve this goal, we use a multiple case study as research strategy and analyze our data according to the grounded theory method (GTM).

1.4. Defining the key issues

1.4.1. Private family SMEs

Family businesses have been defined in various ways in literature. Most of those definitions focus on ownership, on participation in management, or both (Gedajlovic et al., 2010; Chua et al. , 1999). What is agreed upon however, is that the overlap between family and business, is what distinguishes family from nonfamily firms (Sharma, 2004). This overlap often implies that the family is able to influence business decisions and behaviors (Steier et al., 2004) like the establishment of the vision and control mechanisms in the firm (Sharma, 2004). Researchers have started to develop ways to grasp this influence of families on their business to classify different types of family firms.

In 2002, Astrachan et al. (2002) developed the three-dimensional F-PEC scale to measure the potential family influence based on family-power, experience and culture. Somewhat later, Chrisman et al. (2005) introduced two dimensions of family involvement which resulted in the components of involvement approach versus the essence approach. The components of involvement approach considers the family's involvement in ownership, management or control. The essence approach focuses on the behavior that stems from family involvement and their trans-generational vision. This behavior is determined by the distinctive processes and synergistic resources and capabilities that the family can provide to the business (Habbershon et al, 1999). Later, Zellweger et al. (2010) add organizational identity (how the family defines and views the firm) as a third dimension of familiness and refer to the interaction of the three dimensions to explain the level of family involvement in the firm. And in 2011, Rantanen et al. strive for capturing the actual (as opposed to potential) influence of the family by introducing the F-CPO (collective psychological ownership of family over business) concept.

Despite these efforts, there still is no universally accepted definition or classification of family firms. Therefore, researchers clearly have to define how they conceptualize a family business in their study. This has to be done in a way that is relevant for the research topic under study. Since our research aim is to explore what happens between the attainment of governance needs and the implementation of governance mechanisms in private family SMEs and explain why it happens, we did not esteem it desirable to choose beforehand a fine grained definition which might exclude too much types of family businesses in advance. Especially because we do not know if or how the different aspects of involvement as indicated above, influence these intermediate processes. Besides, this approach leaves us the opportunity to establish during the research whether certain variables (like ownership and management for example) are relevant in explaining the behavior that bridges the governance needs and the fulfillment of those needs. In other words: we want to establish this during our study, and thereby shape the context of our findings.

Therefore, we adopted the definition of Corbetta (1995) and Corbetta and Tomaselli (1996) of a family business which is a business in which "the legal control of voting stock is held by one or a few families who are either related in some way, or share a certain degree of affinity or alliance" (Corbetta et al., 1996 p. 403). Besides, Klein (2000) and Carney (2005) argue that ownership is the key to differentiate family from nonfamily businesses.

There are two aspects however, of which we do have fair reason to assume that they substantially influence our research topic, and which we therefore do include in our research context in advance, namely: the size and the ownership in terms of private versus public.

Regarding the **size** aspect, it is overall acknowledged that large companies differ from small companies in several ways. Small companies are mostly associated with flat management structures and an organic organizational structure (Mintzberg, 1979). They are perceived as having more simple structures (d'Amboise et al., 1988) with informal networks (Mintzberg, 1979) and less formalization in general (d'Amboise et al, 1988). And although they often don't have access to large resources, their 'lean' characteristics make them able to respond quickly to new opportunities (Wiklund et al., 2003). Governance mechanisms present in larger firms, may not be present in smaller firms. Small firms for example experience less inspection from stakeholders like the media, labor unions and creditors which can provide corporate governance monitoring (Randoy and Goel, 2003). And outside directors (Whisler, 1988) and nonfamily executives (Sharma, 2004) are mostly associated with large firms. Furthermore, some governance mechanisms that are present, may be used differently. For example, small firms tend to use less active boards of directors (BoDs) (Schwartz et al., 1991; Fiegener, 2005; Gabrielsson, 2007). And the boards that are active in small companies often work differently than boards in large firms (Fiegener, 2005; Gabrielsson, 2007; Gabrielsson et al., 2000; Daily et al. , 1993; Huse, 1990).

The above characteristics indicate that small firms may not only use other governance mechanisms, but also use existing mechanisms differently. Therefore, we chose to narrow our research context to small and medium-sized firms. Besides, most family firms are SMEs and most SMEs are family firms (Donckels et al., 1991; Corbetta et al., 1999; Johannisson et al., 2000), so this will leave us with the most prevalent organizational form of family firms.

Within the scope of SMEs however, there also exist many different definitions. Most of these definitions refer to financial indicators, employment figures or both. Two definitions are dominating in existing literature: the US-based definition and the EU-based definition. Although the US-based definition differs across different industries, it is mostly generalized as comprising firms up to 500 employees, with sometimes the extra criterion of

$ 20 million total sales (Fiegener et al., 2000). The renewed EU-based definition, which has been effective from January 2005, takes into account the number of employees, the annual turnover, and the annual balance sheet total. Table 1.1. below illustrates the details of this definition:

Table 1.1.: The EU-based definition of SMEs

Enterprise category	Headcount	Turnover or	Balance sheet total
medium-sized	< 250	≤ € 50 million	≤ € 43 million
small	< 50	≤ € 10 million	≤ € 10 million
micro	< 10	≤ € 2 million	≤ € 2 million

Source: European Commission, Recommendation 2003/361/EC

In addition to the staff headcount ceiling, an enterprise qualifies as an SME if it meets either the turnover ceiling or the balance sheet ceiling, but not necessarily both.

For this study, we will use the EU-based definition of an SME which refers to a firm that employs between 10 and 250 employees and has a turnover between 2 and 50 million euro or a balance sheet total between 2 and 43 million euro.

In terms of the second aspect, the **ownership**, there's an important distinction between private and public ownership. The behavior and organizational processes of private companies can be significantly different from those in public ones (Schulze et al., 2001). Private firms do not have to comply with the specific legal needs and pressure from the capital market to adopt specific governance mechanisms (Pieper et al., 2008). These firms are known to rely more on informal control mechanisms than on contractual governance (Jensen and Meckling, 1976) referred to as relational governance (Huse, 1993; Mustakallio et al., 2002). Therefore, we take this into account in defining our research context, and focus only on private firms.

Based on the discussion above, we identify our research context as private family SMEs which can be defined as non-listed firms in which the legal control of voting stock is held by one or a few families who are either related in some way, or share a certain degree of affinity or alliance and which answers to the criteria of the EU-based SME definition as illustrated above.

1.4.2. Governance

For corporate governance as well there exist numerous different definitions. Some of these definitions are formulated more generally (e.g. Bradach et al., 1989; Van Kersbergen et al., 2004) while others are more specific by referring to certain systems, structures or mechanisms which may enhance the functioning of the organization (e.g. Grundei et al., 2002; Daily et al., 2003; Huse, 2005) or the relationships between certain parties (e.g. Johnson et al., 1999; Daily et al., 2003). Some are more task oriented (e.g. Tirole, 2001) and others are more goal-oriented (e.g. Melin and Nordqvist, 2002; Neubauer and Lank, 2004). Pieper (2003) classifies these definitions in a two-by-two matrix, based on their scope and orientation. Their different emphasis makes these definitions difficult to classify. However, most of these definitions can be traced back to the theoretical perspective(s) from which they originate.

The dominating theory herein is agency theory that starts from the separation of ownership and control (Berle & Means, 1932). Definitions based on this theory see governance as a means to deal with managerial self-interest. This theory starts from the assumption that directors and executives are self-serving and opportunistic. The goal of the governance mechanisms under this definition is to stimulate and control managers to work towards outcomes which are in the interest of shareholders (Anderson & Reeb, 2004; Fama & Jensen, 1983; Jensen & Meckling, 1976; Schulze et al., 2001; Shleifer & Vishny, 1997).

Complementing but also contrasting to agency theory, stewardship theory assumes that the interests of directors and executives will often coincide with those of shareholders (Davis et al., 1997). From this theoretical stance, control can be counterproductive because it can demotivate the steward and his/her pro-organizational behavior (Davis et al., 1997). Therefore, governance definitions based on this theory focus on facilitating and empowering instead of monitoring and controlling.

The power perspective is another approach which starts from the potential conflict of interests between executives, directors and shareholders (Jensen, 1988). From this perspective, governance has to deal with these conflicts.

Stakeholder theory on the other hand argues that managers have to take into account the interests of all stakeholders (like employees, customers, financial claimants) when making decisions (Jensen, 2001). Governance definitions based on this theory therefore, take into account other stakeholders besides shareholders (e.g. Keasey et al., 1997; Aoki, 2000; Huse, 2005).

And resource dependence theory focuses on the enhancement of organizational functioning, firm performance and survival. Governance definitions based on this theory therefore stress the provision of resources as being crucial.

Although the above list of theories certainly is not exhaustive, it illustrates that many theoretical perspectives exist in corporate governance literature, with their own assumptions and prescriptions which can be contrary, but more recently are seen as possibly complementary to each other. This means that different theories may be applicable to the same situation and each explain parts of it. For example, it is acknowledged that corporate governance is not only about holding management accountable (which involves monitoring, evaluation and control), but also about enabling the management to do what is best for the company (Filatotchev et al., 2005). In line with this, researchers are increasingly pleading for a multitheoretic view on corporate governance.

To take into account these different perspectives, as in line with a mulitheoretic view, we adopt the broad and goal-oriented definition of corporate governance of Daily et al. (2003, p. 372): "the many mechanisms and structures that might reasonable enhance organizational functioning". This definition comprises the different theoretical perspectives referred to above, since all governance tasks mentioned can contribute to the enhancement of the functioning of the organization.

1.5. Outline of the dissertation

The study proceeds as follows. First we will review the state of existing literature on governance in private family SMEs in chapter 2. We do this by integrating the governance literature on private firms, family firms and SMEs. The structure of this chapter is organized around the concepts in figure 2.1. We end the chapter by summarizing the main findings and defining the research gap that leads to our research question. In chapter 3, we discuss our methodological approach. We first discuss the inquiry paradigm by giving our ontological, epistemological and methodological stance. We end by illustrating the practical implementation of the chosen methodology through the research design. In chapter 4, we report our findings by presenting the codes and categories that underlie the developed concepts. These findings are discussed and presented in a conceptual framework in chapter 5. In this chapter, we also formulate the conclusions and limitations and make suggestions for further research.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

The aim of this chapter is to make an synopsis about what is known in current literature about governance in private family SMEs and identify how this literature is inadequate to answer our research question. To achieve this, we will integrate the literature on private, family, and small and medium sized firms.

The chapter is constructed as follows. In section 2.2., we illustrate the literature review framework by describing the search procedures that are followed and providing an overview of the selected articles. In section 2.3., we present the actual review that is structured around the key concepts that prevailed during the literature review: the boards of directors, contingencies leading to certain board features, governance needs, and other governance mechanisms. And lastly, in section 2.4., we define the research gap that leads to our research question.

2.2. Literature review framework

For the literature on governance in private family SMEs, we focused on the articles of five journals as a starting point. We incorporated Family Business Review (FBR), Entrepreneurship, Theory & Practice (ET&P), Journal of Business Venturing (JBV) and Journal of Small Business Management (JSBM) since these journals comprise a major part of family business research (Bird et al., 2002; Chrisman et al., 2008, 2010; Debicki et al., 2009) and are perceived as "the most appropriate outlets for family business studies" (Chrisman et al., 2010, p. 10). To this we added the more recently founded Journal of Family Business Strategy (JFBS). We began the search procedure by collecting articles from FBR which started in 1988 with its first issue. For JBV and JFBS, we used Science Direct through which we had access to articles as of 1995 (JBV) and 2010 (=foundation JFBS). For ET&P and JSBM, we used Business Source Premier which supplied us with articles from 1988 and 1971 respectively. All these databases were accessible until the moment of retrieval, which was December 2012. The articles were collected by searching for the keywords "governance" and "board" in combination with several organizational types as illustrated in the following table:

Table 2.1.: Search queries

Governance item		Type of organization	Organization label
governance OR board	AND	family	firm*
		small	business*
		medium*	corporation*
		privat*	enterprise*
			compan*

The governance items in the first column are both used by using the Boolean operator 'OR' and are combined with all possible combinations of the second and third columns by using the Boolean operator 'AND'. The asterisk (*) is used to leave possibilities for other search alternatives (like for example firms, businesses, medium-sized). We searched for these keywords in the abstracts and the titles of the articles.

After following these procedures, articles with a substantial focus other than governance or boards in private family SMEs (like large, public nonfamily firms) were left out. This left us with 104 articles. During the literature review process, we applied the snowball approach (Patton, 1990) by looking for frequent references, and during the analysis of our data we also explored some literature further. The references that were related to governance in private family SMEs were added to the original 104 articles. This resulted in a sample of 128 articles, which is illustrated in table 2.2.

We categorized the articles based on the journal from which they were retrieved, and based on four characteristics. The first characteristic is the **population focus** of the article, which refers to the organizational type that is investigated. As mentioned before, articles focusing only on aspects outside our scope of interest were not kept, but if the article contained one of the variables of the organizational type (see table 2.1. column two), it was retained. Within this categorization, ‘other’ refers to populations like serial business families, family involvement in new ventures, family dynasty. The second characteristic refers to the **governance focus** of the article, where ‘other’ refers to governance mechanisms like family consultants, relational & contractual governance and institutional forces. The **theoretical perspective** is the third characteristic and refers to theoretical perspectives explicitly mentioned in the article. Several articles for example mention service and/or control roles of boards, but don’t refer explicitly to a theoretical perspective. These articles were also classified under ‘not explicitly referred to’. The category ‘multitheoretic’ mostly comprises two or more of the other theoretical perspectives listed, but in some cases also adds another perspective, not listed separately here. And lastly, we classified the articles per **research strategy** in which ‘other’ refers to strategies like interviews, combination of qualitative & quantitative research, or conversations with an expert.

By analyzing this table, some features of research on governance and boards in private family SMEs can be distinguished immediately. First of all, and not surprisingly, FBR covers the largest part of this type of research. Second, most of this research is focused on family firms in general (although defined in many different ways), without the combination with the size or private aspect. Third, while a substantial part of the articles focuses on boards in terms of governance, most articles mention at least two aspects of governance (e.g. boards and family councils, or formal and informal governance). About the theoretical perspective, we can derive that most articles refer to multiple theories (which means that they at the very least illustrate of being aware of multiple possible theoretical approaches for their topic) or do not explicitly mention a theoretic perspective at all. The articles referring to only one theory, are mostly referring to agency theory. And last, regarding the research strategy, we do not find such a clear-cut non-equilibrium, but a slight preference for surveys and a development of propositions based on existing literature or theory, can be distilled.

Table 2.2.: Overview articles

	Total	FBR	ET&P	JBV	JSBM	JFBS	JMG	ERD	AMJ	OS	MDE	ASQ	QMR (I)	BJM	JOB	CG	SBE
Population focus																	
Family firm	71	47	13	2		5			1		1	1					1
Small/medium sized	13		5	1	5			1					1				
Private + family	8	1			2	2			1	1					1		
Small/medium + private	4	1	3														
Family + SME	6	2			2			1								1	
Private + family + SME	2	1				1											
Listed + SMEs	3		1	1	1												
Medium & large + family	1	1															
Listed + family	11	5	2		2	2											
Private	2						1										1
Large + public + family	1											1					
Other	6	2	1	1		1								1			
	128	**60**	**25**	**5**	**12**	**11**	**1**	**2**	**2**	**1**	**1**	**2**	**1**	**1**	**1**	**1**	**2**
Governance focus																	
Boards	40	16	9		3	4	1	2				1		1		1	2
Mix	55	30	9	3	5	4			1	1	1				1		
Succession strategies	4	2		1		1											
Finance/auditing	5	3			2												
Trust	2	1	1														
Other	22	8	6	1	2	2	0	0	1			1	1				
	128	**60**	**25**	**5**	**12**	**11**	**1**	**2**	**2**	**1**	**1**	**2**	**1**	**1**	**1**	**1**	**2**

Theoretical perspective																	
Agency theory	19	5	3	1	3	2			2	1	1				1		
Multitheoretic	55	21	16	1	5	4	1	2				1		1		1	2
Not referred to	44	29	4	2	4	4							1				
Strategic, legal perspective	1	1															
Resource based view	1		1														
Transaction cost theory	1			1													
Institutional theory	1	1															
Resource dependence theory	1					1											
Strategic management perspective	1	1															
SEW	2	2															
Stewardship theory	1		1														
Behavioral theory	1											1					
	128	**60**	**25**	**5**	**12**	**11**	**1**	**2**	**2**	**1**	**1**	**2**	**1**	**1**	**1**	**1**	**2**
Research strategy																	
Survey	40	17	7	2	6	2	1	1	1	1						1	1
Existing literature /theory	33	13	12		1	3					1			1	1		1
Literature review	5	5															
Secondary data (reportings)	18	4	3	1	3	4			1			2					
Case study	10	7		1		2											
Experience as consultant / business owner	9	8			1												
Other	13	6	3	1	1			1					1				
	128	**60**	**25**	**5**	**12**	**11**	**1**	**2**	**2**	**1**	**1**	**2**	**1**	**1**	**1**	**1**	**2**

- Journals in alphabetical order: AMJ= Academy of Management Journal, ASQ= Administrative Science Quarterly, BJM= British Journal of Management, CG= Corporate Governance, ERD= Entrepreneurship and Regional Development, ET&P= Entrepreneurship, Theory and Practice, FBR= Family Business Review, JBV= Journal of Business Venturing, JFBS= Journal of Family Business Strategy, JMG= Journal of Management and Governance, JOB= Journal of Organizational Behavior, JSBM= Journal of Small Business Management, MDE= Managerial and Decision Economics, OS= Organizational Science, QMR= Qualitative Market Research: An International Journal, SBE= Small Business Economics

2.3. Literature review on governance in private family SMEs

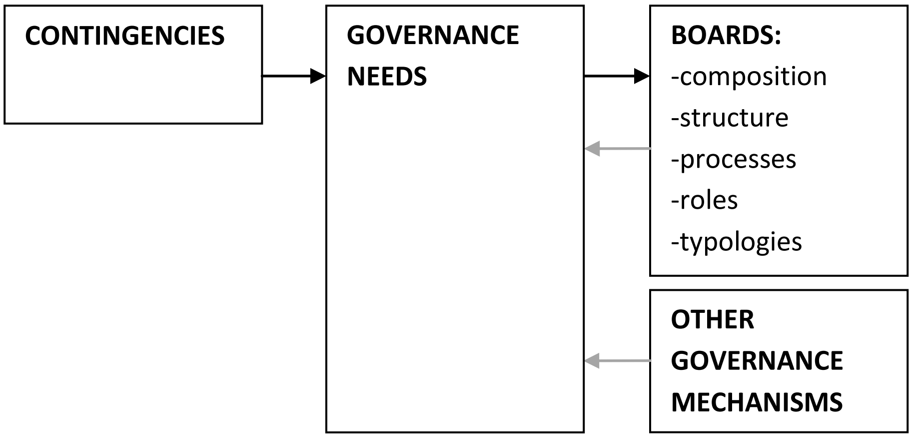
Current literature on governance in private family SMEs is pre- or describing different governance mechanisms, with a substantial focus on the board of directors. This is not surprising since the board of directors (BoD) is one of the most imperative governance mechanisms for family SMEs (Van den Heuvel et al., 2006). This BoD is mostly described in terms of its features like board composition, board structure, board processes, board roles and board typologies.

A lot of research has been done to establish the antecedents of board features. Mostly, this research investigated the direct link between certain contingencies and different board features, but more recently it is acknowledged that this link is mediated by the board task needs in the firm.

However, despite the dominance of boards in current governance literature on private family SMEs, a significant part of this literature also draws attention to other governance mechanisms available to or present in the private family firm. These other governance mechanisms also fill in certain governance needs.

The above mentioned variables are the key variables of this literature review, and are presented visually in figure 2.1. below:

Figure 2.1.: Literature review – key variables



So it is known that contingencies create certain governance needs that can be fulfilled by a board. These needs create certain board features like board composition and board roles, which lead to different board typologies. These are the black arrows in figure 2.1.. It is also known that boards can fill in governance needs and that besides boards, other governance mechanisms do exist in private family SMEs, and these mechanisms also fulfill certain governance needs. These are the grey arrows.

The literature review presented in this chapter, will be structured around the variables presented in figure 2.1. So we will first review the literature on board features and the contingencies of these board features in private family SMEs, in the first section. Since recent sources in this literature are indicating that boards should be and are adapted to the needs in private family SMEs, we will review literature on governance needs in these firms in the second section. In the third section, we will review the literature on the other governance mechanisms available to, or used by private family SMEs.

2.3.1. Board of directors

Boards of directors may exist in many different forms, playing many different roles. Therefore, this governance body is often discussed in terms of its features. Most of these features can be grouped under board composition, board structure, board processes, and board roles.

2.3.1.1. Board composition

Board composition can refer to the size of the board, the outsiders ratio, and minority participation (Zahra and Pearce, 1989). It can refer to the configuration of competence and characteristics among the board members (Huse, 2005). In family business literature, the involvement of outsiders is dominating. It is "the aspect of composition that is specific to the family business context" (Bettinelli, 2011 p. 163).

However, many definitions of outsiders coexist. Some authors define them as nonfamily directors (e.g. Mueller, 1988). The distinction between family and nonfamily directors is based on the fact that family members have the same culture, values and norms which they have inherited from their parents and relatives (Chua et al., 2003). They have a stronger emotional attachment to the firm which enhances their level of commitment and involvement towards their organization (Sharma and Irving, 2005). Nonfamily members therefore often have a common feeling of exclusion from the controlling family (Minichilli et al., 2010).

Others define outsiders as people from outside the firm (Newer, 1984). But defined this way, outside directors can be people who have a close relation with the business like e.g. the family lawyer, a banker, or a close friend of the CEO (Corbetta & Tomaselli, 1996; Ward & Handy, 1988). Since the objectivity of these persons can be questioned, authors increasingly take into account the independence aspect of outside board members (e.g. Pearce and Zahra, 1992; Kor, 2006; Chen and Hsu, 2009). Independent directors are mostly defined as directors who are not linked to the CEO through personal or professional relationships (e.g. Anderson and Reeb, 2004; Fiegener et. al, 2000).

This distinction between inside and outside directors thus mainly stems from their ability to be able to be objective, independent from the influence of the management (often incorporated in the CEO-owner) of the firm. This strive for objectivity is mainly based on the **agency perspective**. Agency theory is based on the assumption that owners (principals) and managers (agents) are separate chains of command, and since in most family firms these functions are united in one person, it has been argued that private family SMEs are not confronted with agency problems (Jensen & Meckling, 1976). However, these firms are faced with other agency problems[2] like moral hazard, hold-up and adverse selection.

Therefore, the agency perspective is also applied in literature on private family SMEs. Ng and Roberts (2007) refer to this as the 'new' agency approach towards family firms. In this respect, *outsiders* are recommended for their objectivity (Danco, 1982), their unbiased views (Schwartz and Barnes, 1991; Poza et al., 1997). This objectivity can help countering several of the alternative agency problems that private family SMEs are confronted with (Voordeckers et al., 2007). For example, independent directors may help to avoid wealth expropriation by family members (Miller and Le Breton-Miller, 2006; Chrisman et al., 2004). With respect to the adverse selection problem, they may help in setting the guidelines for the employment of family members and the selection of successors in management functions (Hoy and Verser, 1994). Their objectivity can also help in mediating conflicts, for example by offering alternatives (Mueller, 1988; Klein, 2000; Anderson & Reeb, 2004). This may be regarding conflicts between personal and company goals (Mueller, 1988), or between family members (Danco and Jonovic, 1981; Mace, 1971). They may also arbitrate in dealing with the succession issues (Arosa et al., 2010) and they may help in holding the family management accountable (Schwartz and Barnes, 1991; Poza et al., 1997).

So this 'new' agency approach towards family firms acknowledges that these firms are indeed confronted with agency problems for which independent

[2] We will discuss the agency problems in more depth in section 2.3.2.

outside directors could be of help. But this agency perspective, and especially the assumption that owning families exert control over minority shareholders and professional managers, also suggests that independent outsiders may be impotent to mitigate wealth expropriation by the owning family (Ng and Roberts, 2007). Ng and Roberts (2007) however found that independent outsiders do have the power to effectively influence the family firm as far as they find a way to work with powerful family members, and especially with the patriarch.

Although agency theory has dominated board literature for a long time, even board literature with respect to private family SMEs, the last decades alternative viewpoints have been coming up increasingly. The most prevalent ones are stewardship theory and resource dependence theory.

Stewardship theory uses a different model of man which is often presented as the opposite of agency theory assumptions. Based on this theory, it is argued that managers choose pro-organizational collectivistic behavior above individualistic, self-serving behavior. Davis et al. (1997) argue that the behavior in family firms is more in line with this theory, especially when family and business share the same values. From this point of view, accountability is not about supervision, but about trust (Pieper et al., 2008). Trust refers to the readiness of a certain party to be susceptible to the actions of another party, based on positive expectations regarding that other party's behavior (Mayer et al., 1995). When there is a lack of trust, managers will be more reticent to ask for board assistance on areas in which their own skills are insufficient (Johanisson and Huse, 2000; Klein, 2000; Mathile, 1988). And outside directors can only mediate family conflicts, if they are fully trusted by those family members (Lester and Cannella, 2006; Whisler, 1988). Therefore, in this line of reasoning, it is argued that directors first of all have to advise and support the management, instead of discipline and monitor them (Corbetta & Salvato, 2004; Daily et al, 2003; Gubitta and Gianecchini, 2002; Hillman & Dalziel, 2003; Pieper et al., 2008).

Board composition prescriptions based on this point of view therefore refer to *insiders or affiliated outsiders* (Sundaramuthy & Lewis, 2003). It proposes fewer outsiders (Jaskiewicz & Klein, 2007) and a higher ratio of owner-dependent, inside members (Gubitta and Gianecchini, 2002) for boards of directors. Privately owned family businesses with high levels of goal alignment are also found to have *smaller* boards (Jaskiewicz and Klein, 2007). In fact, goal alignment between owners and managers is typically associated with family firms (Steier et al., 2004).

Resource dependence theory states that firms are open systems which depend on external organizations and contingencies in the environment (Pfeffer and Salancik, 1978). According to this theory, the composition of boards should reflect the characteristics of the firm's environment (Pfeffer and Salancik, 1978) and be composed to deliver resources (Hillman et al., 2000). So changes in the environment should lead to changes in the composition of the board of directors (Hillman et al., 2000). From this point of view, outside directors bring with them a network of contacts (Poza et al., 1997) and provide the business with human, relational and information capital (Hillman & Dalziel, 2003; Zahra et al., 2009). Therefore, the number of outside directors and the size of the board are related to the level of uncertainty and dependency the firm is faced with (Pfeffer and Salancik, 1978).

But resource dependence theory also suggests a more finely grained distinction between directors than the insider-outsider categorization (Hillman et al. 2000). For example, some authors define next to the insider-outsider categorization, the grey or affiliated directors which are directors who are not employers or managers, but who have some affiliation with the corporation or the family (e.g. Anderson and Reeb, 2004; Jones et al., 2008; Arosa et al. 2010). Hillman et al. (2000) present a resource dependence taxonomy of directors which divide outside directors into business experts, support specialists and community influentials. Since business experts and support specialists are employed by a firm that maintains a business relationship with the focal firm, they are affiliated outside directors.

Community influentials on the other hand are independent directors without a link between their employer and the focal firm (Jones et al., 2008). All these outside directors provide legitimacy to the firm (Hillman et al., 2000). And business experts and support specialists may be especially valuable to family firms since they are affiliate directors who can develop more permanent and personal relationships with the family firm's management (Jones et al., 2008). They encourage diversification and growth-oriented strategies by supplying their knowledge and experience (Jones et al., 2008).

Resource dependence theory thus provides a more finely grained taxonomy of directors, in terms of the resources they can deliver to the firm. Therefore, according to resource dependence theory, larger and *more heterogeneous boards* are more effective because they deliver better opportunities to connect with a greater variety of important external resources (Pfeffer, 1973; Zahra & Pearce, 1989).

In sum, literature on governance in private family SMEs first has been dominated by prescriptions for the inclusion of outside directors (e.g. Mathile, 1988; Mueller, 1988; Ward, 1988; Schwartz and Barnes, 1991). Based on its possible contribution to the alternative agency problems, but also partially on the "wholesale acceptance of standard governance make-ups that fit large, publicly listed companies" (Corbetta & Salvato, 2004, p. 120), literature has been recommending large, active and external boards for closely held family businesses. But gradually, alternative perspectives and prescriptions have been developed with more caution towards the adoption of outside directors for private family SMEs (Bettinelli, 2011). Voordeckers et al. (2007) e.g. found that the resource dependence and added value perspective are more appropriate for explaining the variation in board composition in family SMEs than agency perspectives. Some authors even argue that outsiders may have a negative effect on the performance of the board in family firms because of insufficient knowledge of the firm (Ford, 1988) and its family dynamics (Harris and Raviv, 1988), lack of availability to the firm (Ford, 1988) and insufficient authority over insiders (Jonovic, 1989). But findings and suggestions stay mixed. Anderson and Reeb (2004) e.g. still found positive effects for outside directors on boards in public family firms. This was confirmed by Bettinelli (2011) for private family firms, as far as they used their board actively. Therefore, the insight has developed that outside directors may affect the family business positively or negatively (Bettinelli, 2011).

2.3.1.2. Board structure

Besides the aspect of how boards are composed, literature also investigates how they are organized. We use the term board structure to describe the dimensions of the board's organization (Zahra and Pierce, 1989). It refers to the "frequency of meetings, location of meetings, time of meetings, the setting and distribution of the board agenda, form, content, distribution and follow up of board minutes or protocols, the organization and leadership of the board" (Huse, 2000 p. 279).

With respect to board meeting frequency, Ward and Handy (1988) found that boards in private SMEs meet about four times a year. Corbetta and Tomaselli (1996) report in their findings that boards in 49% of Italian family firms meet less than six times a year, whereas 14% meets more than twelve times a year. Van den Berghe and Carchon (2002) state that family firms' boards meet less than two times a year. So findings on this topic seem to vary a lot, which may be due to how a family firm is defined, or other sample differences.

In terms of the length of board meetings, Ward and Handy (1988) found that the average length of board meetings in private SMEs is about four hours, whereas Corbetta and Tomaselli (1996) report an average of two and a half hours in their study on Italian family firms.

However, research on board structure remains quite scant. Except for one aspect, on which most research on board structure focuses: CEO duality as part of the board leadership structure (Huse, 2005). In family firms, this chairperson often is a family owner which often is also the CEO of the firm.

In literature, the combination of the chairperson and CEO function is referred to as CEO duality. CEO duality is highly evident in family SMEs (Ford, 1988; Ward et al., 1988; Huse, 1990; Corbetta et al., 1999). In general governance literature, it is argued that CEOs have the desire to maintain discretion over their decision making (Westphal, 1998; Anderson and Reeb, 2004). Because of this desire, they use their power to install dependent boards (Fiegener et al., 2000; Voordeckers et al., 2007). This discretion gives them the opportunity to implement decisions that optimize their own interests (Fama and Jensen, 1983). For family firms, nonduality therefore is seen as a monitoring check in firms where the controlling family may otherwise expropriate wealth to the disadvantage of minority shareholders (Braun and Sharma, 2007; Garcia-Ramos et al., 2011). Therefore, from an agency perspective, it is suggested to separate the CEO and board chairman functions (Garcia-Ramos et al., 2011). However, Garcia-Ramos et al. (2011) argue that in firms where family has control over firm resources, nonduality as a governance mechanism may be superfluous.

As opposed to agency theory reasoning, from a stewardship perspective, it can be expected that CEO duality has a positive influence on firm performance (Davis et al., 1997). The logic behind this argument, is that the CEO possesses more detailed and accurate information because he often is familiar with day-to-day activities. Because of this information flow, and the unity in decision-making, the drawbacks of agency problems may be surpassed (Davis et al., 1997). Garcia-Ramos et al. (2011) found that CEO duality has no effect on performance in founder-led firms, and even improves firm performance when the business is run by descendants.

In sum, research on board structures is rather limited to date, except research on the board leadership structure where the focus lies on the CEO duality aspect. Agency and stewardship theory reasoning each propose different optimal board leadership structures. Recently however, Elsayed (2010) argues that the assertion of both agency theory and stewardship theory may be valid under certain conditions for determining the optimal structure (CEO duality versus nonduality) because both structures have related costs and benefits, and board leadership structures are also contingent on other variables.

2.3.1.3. Board processes

Above we reviewed the literature on board composition and board structure in private family SMEs. More recently however, it is argued that board effectiveness can better be understood by including the processes inside the board (e.g. Forbes and Milliken, 1999; Westphal and Bednar, 2005; Bettinelli, 2011). Board processes refer to the board's decision-making culture and the interactions inside and outside the boardroom (Huse, 2005).

In relation to the **decision-making culture** of the board, Forbes and Milliken (1999) propose that certain board processes are linked to board demographic variables like outsiders and board size, and should be incorporated to understand the effectiveness of boards. The decision-making processes they refer to are: effort norms, cognitive conflict, presence and use of functional and firm-specific knowledge and skills, and cohesiveness. Roberts, McNulty and Stiles (2005) use concepts like challenging, questioning, probing, encouraging, debating and the like. They argue non-executive directors can contribute to board effectiveness by being 'engaged but non-executive', 'challenging but supportive' and 'independent but involved' (Huse, 2005 S73). And Huse (2004) found that cohesiveness, commitment, creativity and criticality were positively related to different board roles.

In terms of **interactions inside and outside the boardroom**, Huse (1998, 2000, 2005) indicates that board members interact with each other, and with other stakeholders, outside as well as inside the boardroom. He points out that these interactions have an effect on the functioning of the board, and are characterized by concepts like power, trust and emotions (Huse, 2005). These interactions also refer to the 'coupled search processes' in the organization (Bammens et al., 2011). These processes occur when high-level choices (like incentives and information systems) determine low-level operational choices (like pricing, level of production) (Siggelkow and Rivkin, 2009).

So scholars are increasingly acknowledging the need to include research on the processes within and around boards of directors, but in family firm literature, this type of research is largely lacking (Bammens et al., 2011). Literature on nonfamily firms regarding board processes however cannot usefully be applied to family firms, since the dynamics of boards in family firms differ from those in nonfamily firms (Corbetta and Salvato, 2004; Uhlaner et al., 2007). One of the reasons for this is the higher emotional attachment and interdependence of board members in family firms (Cruz et al., 2010).

A few authors have addressed this issue like Mathile (1988), who indicates that it is important to have the whole family involved in the board to achieve trust and integrity. Alderfer (1988) stresses the importance of group consultations, of which Barach (1984) indicated that they are especially useful for mediating conflicts within the board of directors (Barach, 1984). And recently, Bettinelli (2011) found that the presence of outside directors has a positive influence on board effectiveness because these directors stimulate certain board processes that enhance this board effectiveness: effort norms and cohesion.

2.3.1.4. Board roles

Control role

Next to the above mentioned board features, a substantial part of board literature in private family SMEs refers to board roles. From an **agency perspective**, the main role of the board in private family SMEs is to deal with the problems caused by asymmetric altruism, the shareholder-debtholder conflict and the majority versus minority shareholders conflict. Van den Heuvel et al. (2006) for example argue that a role of the BoD in family SMEs is to reduce the agency costs that result from altruistic behavior. The BoD in family firms indeed can play a valuable role by preventing self-control problems (Chrisman et al., 2004; Jaffe, 2005; Schulze et al., 2001) which stem from altruism. Problems with self-control on their turn may lead to moral hazard, adverse selection or hold-up[3]. Board roles can therefore be linked to these agency problems.

In terms of the moral hazard problem, board members in family firms may need to objectively monitor the employed children and discipline possible shirking and free-riding behaviors (Chrisman et al., 2004; Schulze et al., 2002). With regard to the adverse selection problem, independent directors may help by locating and hiring qualified managers (Miller and Le Breton-Miller, 2006) and help with the nurturing and development of capable employees (Jaffe, 2005). Hold-up occurs when a manager, often the CEO, has too much power. In fact, a lot of agency problems in private family SMEs are based on the power and authority of the owner (-manager). Therefore, limitation of the owner-managers' discretion is a role for the board in private family SMEs (Chrisman et al., 2004; Jaffe, 2005; Schulze et al., 2001).

Problems of moral hazard and adverse selection may also be the basis of the problems between the parent-owner, the successor, and other stakeholders during the succession process (Chrisman et al., 2004; Miller et al., 2003). Difficulties in finding a suitable and sustainable CEO are well known in a large number of family businesses (Astrachan et al., 2002). Bennedsen et al. (2007, p. 648) state that the CEO succession decision is "one of the most contentious issues surrounding family firms". Therefore, attending the succession problem is an important board role in private family SMEs (Jonovic, 1989; Harris, 1989; Van den Heuvel et al., 2006; Hillman and Dalziel, 2003).

Next to dealing with the problems that stem from altruism, there are also board roles that are related to the two other agency problems in private family SMEs, the shareholder-debtholder and majority versus minority conflict. If the board is able to control the decision making and monitor the

[3] This will explained in depth in section 2.3.2.

family agents’ behaviors, the needs of both the family and nonfamily shareholders will better be met (Braun and Sharma, 2007). And independent boards, resistant to the power and authority of the CEO, can prevent opportunistic behavior (Anderson and Reeb, 2004) like the misuse of resources (Chrisman et al, 2004; Miller and Le Breton-Miller, 2006).The monitoring of business choices (Ward, 1991) and holding the management (Schwartz and Barnes, 1991; Poza et al., 1997) and/or owner(-manager) accountable (Lane et al., 2006) are also board roles which can help reducing these agency problems in private family SMEs as well.

But not only those conflicts represent a problem in family SMEs. Conflicts often become a real issue when families manage an enterprise (Sorenson, 1999; Kaye, 1991; Lansberg, 1999). There may be conflicts between family members (e.g. Hilburt-Davis and Dyer, 2003), between generations (Johanisson and Huse, 2000) or between private and business interests (Mariussen and Wheelock, 1997). Dyer W.G.Jr. (2006) indicated that conflicts indeed may higher the agency costs. Therefore, mediation on conflicts also is an important board role (Nash, 1988; Mueller, 1988; Whisler, 1988; Lester and Canella, 2006; Voordeckers et al., 2007). This can be achieved for example by focussing the discussion on objective facts (Johanisson and Huse, 2000) or by offering alternatives (Mueller, 1988).

Although we presented here the different board roles that may help mitigating particular agency problems, it is important to realize that the entwinement of agency problems makes it possible for certain control mechanisms to simultaneously counter distinct agency threats (Schulze et al., 2001). The above roles of boards in private family SMEs which are meant to deal with agency problems, is often referred to as the *control role* of the board.

Service, resource and strategic role

Next to the control role, many authors distinguish the service and resource role (e.g. Daily and Dalton, 1993; Fiegener et. al, 2000) or the service and strategic role of boards (e.g. Borch and Huse, 1993; Zahra & Pearce, 1989). Those distinguishing between the service and resource role, refer to the service role as providing counsel and advice to the CEO, enhancing the reputation of the firm by the experience, accomplishment and exposure of outside board members (Daily and Dalton, 1993; Fiegener et. al, 2000) and initiating and formulating strategy . The resource role then is based on resource dependence theory and refers to the boundary spanning role of boards (Pfeffer and Salancik, 1978; Daily and Dalton, 1993; Fiegener et. al, 2000). Daily and Dalton (1993) acknowledge that this resource role is often considered part of the service role, but mentions it separately because "it is thought by many to be crucial" and therefore might be noted separately (Daily and Dalton, 1993, p. 69). Those authors distinguishing between the service and strategy role, describe the service role as advice and counsel on operational problems (Borch and Huse, 1993). The strategy role then refers to the strategy development function of the board.

From the above, the board roles that can be distinguished next to the control role are: providing advice and counsel, act as boundary spanners by delivering networks and lobbying, provide legitimacy, and participate in the strategic process. Most of the roles referred to in literature –besides the control role- can be traced back to one of these four roles.

Nash (1988) for example suggests that boards in private companies should render *advice and counsel* as requested, based on their special expertise. Ward (1988) argues that boards in family firms are an opportunity for advice and counsel. Fiegener (2005) reasons that boards in small firms may help where managerial expertise and experience are lacking internally. He also argues that outside boards may add to the decision-making task by bringing in new knowledge (Johnson et al., 1996), fresh perspectives (Judge and Zeithaml, 1992; Poza et al., 1997) and diverse styles of problem-solving (Rindova, 1999) in smaller firms. Owner-managers of private family businesses view advising the management as one of the most important roles of outside board members (Van den Heuvel et al., 2006).

With reference to the *boundary spanning* function, several authors refer to the networking role of boards in (private) family firms (e.g; Poza et al., 1997; Schwartz and Barnes, 1991). Directors may use their ties to facilitate the acquisition of resources which are critical to the family firm. Their connection to heterogeneous resources may influence the family controlled firm (Jones et al., 2008). But networking functions like contacting and lobbying are also important for small firms (Borch and Huse, 1993). Directors may help family SMEs with the access to external financing markets (Voordeckers et al., 2007; Chen and Hsu, 2009). And according to Audretsch and Feldman (1996), in entrepreneurial firms, boards are vehicles that facilitate and absorb knowledge spillovers.

In terms of *legitimacy*, it is argued that good boards enhance the credibility of the small, closely held company (Nash, 1988). According to Ward (1988), this is one of the advantages of outside boards in family firms. In this respect, Borch and Huse (1993) refer to the involvement of board members in environment-influence activities like legitimizing for small firms.

And last, there is the *participation in the strategic process.* By many authors, this role is incorporated in the service role of boards, together with the provision of resources. Nash (1988) states that one of the key roles for boards in privately held firms is to assist in the strategic decision-making process. Other authors argued that boards in small firms should play a more important role in the strategy development (Castaldi and Wortman, 1984; Huse, 1990). Private family firms may especially benefit from outside board members' involvement in strategic decision making since their strategic decision making is relatively insulated from other outside involvement (Woods et al., 2012).

The above mentioned roles that boards can play, next to the control role, are mainly based on resource dependence theory, resource based view and stewardship theory. The networking and legitimizing roles stem mainly from the **resource dependence aspect** from which it is stated that companies need links with their environments to deal with uncertainties. The initiation and implementation of strategy can be traced back on the first place to **stewardship theory** which assumes that managers should be considered as good stewards to which boards should collaborate and mentor (Hillman and Dalziel, 2003; Shen, 2003). The advice and counsel role of boards is mainly based on the **resource based view** (e.g. Huse, 2005). Barney (1991) argues that the resource based view has a more internal focus than resource dependence theory through which board members are resources, not only because of their networks but also because of their competencies.

So existing literature prescribes and describes different roles for boards in private family SMEs. First, most emphasis was laid on the control role of the board, based on the agency perspective and literature on boards in large public companies. Gradually, more attention has been given to the other board roles in private family SMEs. Some authors even found that these other board roles were more important than the control role when it concerned private family SMEs. Daily and Dalton (1993) for example found that the control role was of less importance for the financial performance of the small company. And Randoy and Goel (2003) found that founder-led firms can exploit their low agency cost status to use their board for strategic purposes. These different board roles however, are not considered to be mutually exclusive (Pfeffer and Salancik, 1978; Daily and Dalton, 1993). More recently, authors started to claim for the integration and balance among different board roles for describing and prescribing boards (Corbetta and Salvato, 2004; Hillman and Dalziel, 2003) and for the development of an effective governance system (Lane et al., 2006). In this respect, several sets of interrelated and integrated board roles have been deducted (Voordeckers et al., 2007).

2.3.1.5. Typologies of boards

In the previous parts, we discussed different board features. Based on different combinations of these board features, different types of boards are distinguished in literature. A first distinction can be made between formal and informal boards. Informal boards, often referred to as advisory boards, have no legal standing (Blumentritt, 2006). They are free from the legal and administrative responsibilities that come along with the membership of formal boards (Morkel and Posner, 2002). Although Nash (1988) notes that advisory directors also can be held accountable with all the resulting legal implications.

Within the group of formal boards, many further distinctions are made. Dyer, W.G.J. (1986) distinguishes between four types of boards: the paper board, the rubber-stamp board, the advisory board[4] and the overseer board. A paper board refers to a board that exists to meet the legal requirements, but has no function but reviewing decisions that are already made. It is composed of few board members which are usually family members and board meetings are obligatory and held irregularly. The rubber-stamp board is a board that provides advice and networks and supports the decisions that are made, but has little power to change them. Its composition often includes nonfamily managers which are generally friends. The advisory board may have some influence on decisions through its outside directors. These outside directors can give invaluable advice and protect the shareholders. They may also mediate in conflicts. And last, the overseer board makes the major decisions on strategy and policy and may even slack made decisions. They elect officers and sometimes even run the day-to-day operations of the company. They meet regularly and include outsiders which may have strong power. And since outsiders' goals often differ from those of the family, these boards may be an arena for conflicts. Wheelen and Hunger (1994) also classify boards, but in terms of their level of involvement. This classification ranges from phantom boards with no degree of involvement at all, to catalyst boards which takes the lead in defining the mission, objectives, strategy and policies.

So board types can range from completely passive boards to very active, empowered boards. Literature has been -and still is- prescribing the more active, empowered boards with outsiders towards private family SMEs (Ward, 1988; Hoy and Verser, 1994; Corbetta and Salvato, 2004;

[4] Note that the concept 'advisory board' here is used with a different meaning than the informal advisory board without legal standing as referred to earlier in the text.

Gabrielsson, 2007). Another stream of research however started to doubt the appropriateness of such large, outside active boards for this type of firms (Ward, 1988; Corbetta and Salvato, 2004). Some argue that these types of boards, which have been developed for large public firms, may even negatively affect the board effectiveness for private family SMEs (e.g. Corbetta and Salvato, 2004) and even called for a 'devil's advocate consideration' towards outside boards in family firms (Ward, 1988). In practice, it seems that many family SMEs have paper or rubber stamp boards (Brunninge and Nordqvist, 2004; Huse, 2000; Lane et al., 2006). These types of boards at best still permits officers to make all decisions (Lane, 2006), implicating that they thus have a very limited ability to influence organisational decisions and outcomes (Gabrielsson, 2007).

Given that boards may exist in so many different forms, researchers have been trying to find antecedents of these different board features. These antecedents or contingencies help in understanding the prevalence of different board characteristics and typologies and are used for the prescription towards other companies with the same antecedents. Therefore, they represent an important part of literature on governance in private family SMEs and will be discussed below.

2.3.1.6. Contingencies of board features

Empowered boards (mostly conceptualized as larger boards with outside directors) are a response to critical contingency factors in and around the firm (Pearce and Zahra, 1992; Pfeffer, 1972). Contingency factors are events and facts that influence something else. Firms *size* is such a contingency factor. Larger firms are associated with larger (Pfeffer, 1972) and more outside boards (Whisler, 1988; Harris, 1989). Firms that are smaller, would find less use in the control role of boards (Daily and Dalton, 1992, 1993; Zahra and Pearce, 1989) and would need the service (Fiegener, 2005) and strategy role (Gabrielsson and Winlund, 2000; Daily and Dalton, 1993; Huse, 1990) of boards more than their larger counterparts (Fiegener, 2005). So firm size is a possible contingency influencing the board composition and board roles.

Others have shown that the *age and life cycle* of small companies lead to differences in the characteristics of their boards (Grundei and Talaulicar, 2002; Huse, 1998). Dyer, W.G.J. (1986) for example found that younger firms tend to have paper boards and Blumentritt (2006) argues that small and/or developing firms may use less formal advisory boards instead of formal boards of directors.

Yet others found differences in the board characteristics that were related to the *industry* in which the firms operated (Huse, 1990; Westhead, 1999). Audretsch and Feldman (1996) for example posited that board members of firms in science-based and high-technology industries focused on facilitating and absorbing knowledge spillovers instead of on monitoring. Lundström (1990) found that boards of directors in SMEs mostly consisted only of owners, except in high-tech companies where externals with relevant business competences were included in the board.

And last, *complexity* is found to be a contingency for certain board features too. Jonovic (1989) for example argues that outside boards may only be appropriate for more complex family businesses. Other variables like firm size, firm age, number of shareholders are often used as proxies for firm complexity in investigating the link with board characteristics (e.g. Pieper et al., 2008). In sum, these contingencies are about the size, age, life cycle, industry and complexity of the firm which can be classified as **firm related** contingencies.

Next to these firm related contingencies, **ownership characteristics** are also investigated. The lower importance of the control role in smaller firms (Daily and Dalton, 1992, 1993; Zahra and Pearce, 1989) referred to earlier, is especially true for smaller firms that are *privately owned* (Mace, 1971). The concentration of ownership in private small firms also gives additional power to the CEO to a level that board decisions and director selection may be overruled (Harris, 1989; Mace, 1971).

Harris (1989) indicates that as the *number or classes of owners* increases, a board with outsiders is more desirable. Other findings show that board composition and leadership structure differ substantially in *VC-backed* firms versus owner-managed firms (Rosenstein, 1988; Rosenstein et al., 1993). Venture capitalists tend to closely monitor performance by means of strong boards that are dominated by outside directors (Fried et al., 1998; Mason & Harrison, 1996). Huse (1998) posits that *creditors* may demand for an active board in order to protect their financial interests.

Further, **CEO related** contingencies are discussed in relation to board composition and roles. CEOs having the *power* to influence organizational outcomes tend to use this power in their choices of board composition (Castaldi and Wortman, 1984; Mintzberg, 1983). Voordeckers et al. (2007) found that CEO power, measured as CEO duality and tenure was one of the significant determinants of board composition in family firms. Braun and Sharma (2007) found that CEO non-duality increased the effectiveness of the monitoring and control role of boards. Closely related to this is the ownership of CEOs.

Fiegener et al. (2000) found that *CEOs who have greater ownership and family stakes* work with more dependent boards which are boards with less representation by outside directors, but more by dependent directors, especially family directors.

Fiegener et. al (2000) argue that the *dominating interest of the CEO* determines whether the boards are dependent or independent. CEOs with primary interest in preserving discretion will have dependent boards, while CEOs with main interest in counsel and resources will have independent boards.

The fact *whether the CEO is the founder of the firm or not*, also influences board characteristics. Firms that are founder-managed tend to have smaller boards and lower proportions of outside directors (Daily and Dalton, 1993; Ward and Handy, 1988) or in other words, boards that are easier to control (Mace, 1971; Mintzberg, 1984) or more dependent (Fiegener et al., 2000). In fact, this is closely related to the CEO power contingency since founder CEOs tend to choose for also being the board chairperson (Daily and Dalton, 1993). Randoy and Goel (2003) found that founder-led firms can use their board more for strategic purposes since they face lower agency costs.

And lastly, Corbetta and Salvato (2004) illustrate that the *power, experience and culture makeup of a family firm* are reflected in their board characteristics. They state that **family characteristics and objectives** determine the board composition in family firms. Several authors indicate that family-related contingencies may affect board characteristics (e.g. Jonovic, 1989; Ward & Handy, 1988; Whisler, 1988).

This is confirmed by Voordeckers et al. (2007) who found that the family related contingencies of *generational transition and the family firm's objectives* were significant determinants of board composition, even more important than CEO or firm related contingencies (Voordeckers et al., 2007). Jaffe and Lane (2004) also argue that the *generational stage* of the family business determines whether there is a board, and whether outsiders are members of the board.

Pieper et al. (2008) argue that the *level of goal alignment* in private family firms is negatively related to the presence of a board of directors. Compared to nonfamily firms, family businesses in general are associated with different board structures (Anderson and Reeb, 2004; Huse, 1994) and different board dynamics (Uhlaner et al., 2007) like e.g. the higher interdependence between the different board members (Cruz et al., 2010).

Above, the literature on antecedents or contingencies of board features and board empowerment is reviewed and grouped under firm, ownership, CEO and family characteristics. A lot of these characteristics are idiosyncratic to private family SMEs. They help explaining the prevalence of the many different board compositions, roles and types. More recently however, authors are starting to claim that the relationship between certain contingencies on the one hand, and certain board features on the other, is mediated by the board task needs or board task expectations (Huse 2005; Bammens et al., 2008). It is argued that board composition should reflect the governance needs of the family firm (Corbetta and Salvato, 2004; Grundei and Talaulicar, 2002). Grundei and Talaulicar (2002) even argue that in reality companies do set up boards that reflect these needs. And Westphal and Zajac (1998) argue that boards structures can be formed because of pressure from external stakeholders, but in practice often depend on the needs of internal actors. Therefore, we will look at these governance needs more closely in the next section.

2.3.2. Governance needs in private family SMEs

What distinguishes family from nonfamily firms, is the overlap of the three systems: business, family and ownership. This implies that family members often have to play multiple roles. They often have to manage and govern the firm (Tagiuri & Davis, 1996), and on top of that also often have a family role (e.g. being a father, a son, a daughter in law). This intertwinement and the resulting multiple roles that family members often have to play, may lead to certain peculiar governance needs in family firms. For governance to be effective in family firms, it has to honor the different roles and the interests of stakeholders balanced (Vago, 1998). The governance structures in family firms have to include the endorsement of cohesion and shared vision within the family (Mustakallio et al., 2002).

One of these peculiar governance needs is directly related to the overlap of the three systems. A typical problem that arises due to this overlap, is that of conflicts. Conflicts may arise due to the coexistence of business/professional and private/personal interests (Mariussen and Wheelock, 1997). In literature, three different types of conflicts are described: task, process, and relationship conflict (Jehn, 1995; Kellermans and Eddleston, 2004). And although literature focuses mainly on the negative aspects of conflicts, they may also comprise a bright side (Sharma et al., 1997; Kellermans and Eddleston, 2004). It is argued that task conflicts (e.g. by enhancing decision-making quality) and process conflicts (e.g. by enhancing innovation and efficiency) may be positive for family firms, given that they exist in appropriate levels (Kellermans and Eddleston, 2004). But despite these possible positive aspects, conflicts are in fact a well known problem in family firms. Different family members may have competing goals or values (Hilburt-Davis and Dyer, 2003), competing views (Dyer W.G.Jr., 2006), competing interests (Schulze, Lubatkin and Dino, 2003a) or ideologies (Johanisson and Huse, 2000). Disputes may also arise between different generations (Johanisson and Huse, 2000). Especially private family firms are subject to the problem of conflicts since conflicts cannot be settled by selling shares at market prices like in public firms. Therefore, there is a **need to align different views and resolve disagreements** in these firms (Vilaseca, 2002), especially since conflicts may paralyze the organisation (Barach, 1984).

The overlap of the three systems with family members being both owners and managers, also provides family firms with a unique agency context (Randoy and Goel, 2003; Voordeckers et al., 2007). Jensen and Meckling (1976) discussed two types of agency conflicts: the shareholder-manager conflict (type I) and the shareholder-debtholder conflict (type II). Chrisman et al. (2004) distinguish between four conditions that can lead to agency costs in family and nonfamily firms: separation of ownership and management, asymmetric altruism, diverging interests between owners and lenders, and diverging interests between majority and minority shareholders. Since Chrisman’s classification also comprises the two types of Jensen and Meckling (1976), the further discussion will be structured according to these four conditions.

Regarding the first condition, it has been argued for a long period that family firms face low agency costs due to the fact that *owners (principals) and managers (agents)* are often the same person which creates a natural alignment. This alignment indeed may overcome this type of agency problems (agency problem type I).

However, more recently, it is acknowledged that family firms face other agency problems (Bartholomeusz and Tanewski, 2006; Wu et al., 2007; Lambrecht and Lievens, 2008; Chen and Hsu , 2009). The core of a substantial part of these agency problems can be traced back to the second condition mentioned by Chrisman et al. (2004): *altruism.* Altruism refers to acting selflessly on behalf of family members (Steier 2003). Families tend to be deeply altruistic (Becker, 1981; Schulze et al., 2001). Although altruism may lead to certain benefits (Sharma, 2004), it may also lead to problems with self-control (Lubatkin et al., 2005). Private family firms are even more vulnerable to problems with self-control (Lubatkin et al., 2005; Jensen, 1998) because of the absence of control which otherwise could be provided by the market for corporate control (Lubatkin et al., 2005). Problems with self-control arise when there are incentives to take actions that may harm themselves or those around them (Jensen, 1998).

This self-control problem in turn can lead to moral hazard, hold-up and adverse selection in private family firms (Lubatkin et al., 2005). Moral hazard occurs when family members free-ride and shirk, which negatively influences the firm performance (Gomez-Mejia et al., 2001; Schulze et al., 2001). Hold-up can arise when a powerful owner-manager (the hostage-taker) has incentive to force other owners to take actions that favor the hostage-takers' interest (Daily and Dollinger, 1992). This incentive is possible as long as those who feel oppressed, or disagree with the decisions or actions of the powerful owner-manager (those who are held hostage) might suffer more from not giving in and/or selling their stake in the firm than from giving in to the hostage-taker. Since private (by the lack of liquidity) and especially private family firms (by giving up noneconomic perquisites and privileges like spoils of altruism, the expectation of inheritance, intimacy, status and family ties) face high exit costs, family agents are more vulnerable to this hold-up problem (Lubatkin et al., 2005). Williamson (1985) refers to this hold-up problem in private firms as owner opportunism. And lastly, altruism and problems with self-control may lead to adverse selection and entrenchment problems when family members are given positions for which they are not best qualified (Burkart et al., 2003).

The third condition that possibly leads to agency problems in private family firms is the *shareholder-debtholder or owner-lender* conflict. Myers (1977) and Smith and Warner (1979) showed that the owner-lender relationship may incur agency costs. And private family SMEs may even be especially vulnerable for this type of agency problem. For example, the survival and profitability of small firms depend on the decisions and actions of a small number of owners and managers. If they behave opportunistically, the impact will proportionately be higher. Therefore, most banks e.g. demand for a strategic business plan before lending any money (Chrisman et al., 2004). Literature on this type of agency problem in family firms however is still quite scarce (Voordeckers and Steijvers, 2006; Wu et al., 2007; Steijvers et al., 2010) and there are arguments in favour and against the question whether family firms face higher or lower costs of this type. On the one hand, these costs may be lower in family firms because of the long term view of owners which may lead to a trusting relationship with lenders and therefore lower this type of agency costs (Ang, 1992). But on the other hand, the absence of the disciplining effect of external markets in family firms may make family owners more vulnerable for self-control problems (Lubatkin et al., 2005; Schulze et al., 2001) which may attribute to this type of agency problems.

And last, the agency costs incurred by the condition of problems between *majority and minority shareholders* (agency problem type II) appears when the larger shareholder uses its controlling position to extract private benefits at the expense of the small shareholders. Morck et al. (1988) illustrated these potential agency costs to minority shareholders from having an entrenched dominant shareholder. If the large shareholder is a family or an individual, its incentives for expropriation and monitoring are greater (Villalonga and Amit, 2006).

It must be noted that although we have presented the above agency treats in private family firms independently, reality shows that these threats tend to become "causally and sequentially entwined" (Schulze et al., 2001, p.

105). For example, adverse selection may lead to moral hazard (Schulze et al., 2001), and self-control problems are also associated with the shareholder-debtholder conflict. But it is clear though that private family SMEs may be faced with several agency problems.

These problems of moral hazard, hold-up and adverse selection may lead to serious disadvantages for the firm or certain stakeholders. Therefore, it is argued that family businesses **need outside review** (Jonovic, 1989). The president of a family firm, Mathile (1988) stated that family firm owners indeed need someone to review them. According to Bartholomeusz and Tanewski (2006), family owners need to be disposed to greater discipline of independent monitoring to enhance the firm performance and value. Mustakallio et al. (2002) also argues that next to other needs, family firms need management supervision and control.

Because family firms not only comprise the business, but also the family system, family firms tend to have noneconomic or nonfinancial goals on top of the traditional economic goals (Mustakallio et al., 2002, Steier, 2003; Steier et al., 2004, Sharma, 2004, Voordeckers et al., 2007). For example: maintain family control, financial independence of the family, family harmony, family employment (Upton et al., 2001; Sharma et al., 1997; Westhead et al., 1997), reputation in the community (Villanueva and Sapienza, 2009), intention to leave business for subsequent generations (Chen and Hsu, 2009) are common objectives in family firms. Some authors argue that these noneconomic goals may even be more important to the family business, than the traditional business objectives (Sirmon and Hitt, 2003; Upton et al., 2001; Sharma et al., 1997; Westhead et al., 1997; Chen and Hsu, 2009; Fiegener et al., 2000). This reality of multiple goals makes that in family firms, difficult choices have to be made between losing control and higher profits (Gallo et al., 2004), between family and business stakes (Steier et al., 2004; Chen and Hsu, 2009), between diversification and managerial control (Jones et al., 2008), between emotional attachment and wealth creation (Jaffe and Lane, 2004), between emotional and rational stakes (Hoy and Verser, 1994).

The fact that family firms have these noneconomic goals, may create needs that are idiosyncratic for family firms. Gomez-Mejia et al. (2007) conclude that a lot of the behavior of family firms can be explained by their need to protect their socioemotional endowment. Socioemotional wealth or endowment refers to aspects of the family firm that meet the **affective needs** of the family. These affective needs can be: "the ability to exercise authority (Schulze, Lubatkin, and Dino, 2003b), the satisfaction of needs for belonging, affect, and intimacy (Kepner, 1983), the perpetuation of family values through the business (Handler, 1990), the preservation of the family dynasty (Casson, 1999), the conservation of the family firm's social capital (Arregle et al., 2005), the fulfillment of family obligations based on blood ties rather than on strict criteria of competence (Athanassiou et al., 2002), and the opportunity to be altruistic to family members (Schulze, Lubatkin and Dino, 2003b)" (Gomez-Mejia et al., 2007 p. 108). As far as these needs relate to the enhancement of the organizational functioning, they can be categorized as governance needs. However, it must be noted that for several of these needs, this may not be the case. The need to be altruistic for example does not refer to the enhancement of the organizational functioning, and therefore cannot be considered as a governance need.

There is one specific noneconomic goal in private family SMEs that has received a lot of attention: the intention to leave the business for subsequent generations (Chen and Hsu, 2009). This may generate an idiosyncratic governance need in the company. The succession issue indeed is unique to family businesses (Filbeck and Lee, 2000). One of the major reasons for the failure of family firms, is a lack of proper succession planning (Lansberg, 1988). Therefore, it is not surprising that succession is a primary concern for family firms (Chua et al. 2003) and that the planning of this process is dominating the family business literature (Poza et al., 2004). Therefore, it can be safely stated that **proper succession planning** is a governance need for private family SMEs.

Next to distinctive objectives, family firms are also faced with an idiosyncratic resource situation. On the one hand, they possess unique resources which nonfamily firms often do not have (Sirmon and Hitt, 2003;

Habbershon and Williams, 1999). On the other hand, the unique resource situation of family firms also refers to potential negative aspects. Sirmon and Hitt (2003) for example argue that there are limits to the quality and quantity of human capital in family firms. Because of the exclusive succession, the limited potential for professional growth and wealth transfer, family firms frequently have trouble attracting and retaining highly qualified managers (Covin, 1994; Horton, 1986). And for private family firms, this aspect may be amplified because they often do not have the ability to offer stock options to employees (Lew and Kolodzeij, 1993; Morck, 1996). On top of that, important management positions in private firms also often are held by shareholders. This lowers the promotional opportunities for other employees (La Porta et al., 1999). These factors may lead to adverse selection problems for private firms in terms of lower quality agents (Schulze et al., 2001) and inferior and/or opportunistic employees (Mohlo, 1997).

Family firms also often have limited access to external financial resources because of their desire not to share equity with nonfamily members (Sirmon and Hitt, 2003) and the tendency of family firms to avoid the accountability that often comes along with external financing (Sharma, 2004). Especially private family firms tend to have this problem (Schulze, Lubatkin and Dino, 2003a), because they do not have the possibility or wish to sell shares for gathering capital. Because of this dependence on private owners' wealth, the cost of capital in private firms often depends on the 'gut feel' private owners have in terms of desired returns (Adams et al., 2004). Their small or medium size also may aggravate this problem, since the administration costs of small loans are relatively higher, and therefore loans to small firms may be more expensive (Bosse, 2009). On top of that, the size aspect often gives them a weak position towards suppliers and buyers (Dewald et al., 2007) and present them with a lack of economic and political power (Gabrielsson, 2007).

The negative aspects of the resource situation in private family SMEs mentioned above, may also give rise to certain governance needs in this type of firms. As illustrated earlier, private family SMEs are often confronted with a lack in quality and quantity of human resources because of the adverse selection problem. Therefore, managerial experience and expertise may be lacking in these firms (Huse, 1990). In this respect, Hillman and Dalziel (2003) state that family business executives need advice and counsel from persons with relevant experience. According to Jones et al. (2008), family firms need insights and knowledge in support functions to facilitate the formulation and implementation of the firms' strategy. This is confirmed by Voordeckers et al. (2007) who state that small family firms need guidance and strategic advice and Blumentritt (2006) who indicates that family business managers need guidance and assistance in the formation of their strategic plans. Sharma et al. (1996) and Ward (1988) argue that strategic planning indeed is important for the success of family businesses. Evidence to date suggests however that business or strategic planning within small firms is an activity of a minority (Richbell et al., 2006; Woods and Joyce, 2003). Possible reasons for this are the fact that the managers in these firms are emotionally unsuited to do it because they think and act intuitively, or that they are simply not aware of the various tools available to plan systematically (Woods and Joyce, 2003). On top of this, the strategy in smaller firms is in many cases formed in an emergent, incremental way (Burke and Jarrat, 2004), and may often be induced by some 'defining episode' or crisis within the company (Mc Carthy and Leavy, 2000). Mendelssohn (1991) states that small firms are unable to articulate their long-term objectives, which leads to ignorance of the marketing concept in small firm planning . From the above, it can be argued that private family SMEs are in need for relevant knowledge, experience and insights and help in the strategic planning which can be classified as the need for **advice and counsel**.

Closely related to this is the need for **networking** activity in small firms (Borch and Huse, 1993). Borch and Huse (1993) argue that, especially in small firms with limited administrative capacity, activities of strategic networking are very important and smaller firms are therefore in need for actors who can provide expertise, experience and contacts. Sirmon and Hitt (2003) also argue that the acquisition of new resources may be especially important for family firms. Knowledge & experience, advice & counsel, help in the strategic planning and the provision of networks are all resources for the private family SME. Family firms are indeed interested in investing in associations that provide access to resources (Miller and Le Breton-Miller, 2005). Other authors suggest that small and new firms have to develop cooperative relationships to establish access to resources they cannot control (Golden and Dollinger, 1993; Jarillo, 1989; Lorenzoni & Ornati, 1988).

Most of the above reviewed governance needs can be perfectly fulfilled by a board of directors. However, the board of directors is not the only governance mechanism that may fill in governance needs in private family SMEs. In the following section, we will review other possible governance mechanisms.

2.3.3. Other governance mechanisms in private family SMEs

The fulfillment of governance needs is achieved by implementing governance mechanisms. As table 2.2. indicates, the majority of literature on governance in private family SMEs is on boards, either exclusively or in combination with some other governance mechanism. But despite this dominance of boards, other governance mechanisms can be distinguished as well.

We indicated earlier that we use the following definition of governance: "the many mechanisms and structures that might reasonable enhance organizational functioning" (Daily et al.,2003, p. 372). A board is an internal contractual governance mechanism. Besides a board, there also exist external governance mechanisms and other internal governance mechanisms. However, external control mechanisms are not that effective in private firms (Schulze et al., 2001). Since the topic of investigation in this dissertation is private firms, we will focus on internal governance mechanisms.

These internal governance mechanisms can be classified according to a spectrum with two ends: contractual mechanisms and relational mechanisms. In the following sections, we will not provide an exhaustive list of governance mechanisms, but review the internal governance mechanisms besides a board of directors that are most cited in literature on private, family and small and medium sized firms. We will classify these governance mechanisms into contractual and relational mechanisms, but it must be noted here that some governance mechanisms are somewhat in the middle of the spectrum, for which their classification may be discussable.

2.3.3.1. Contractual governance mechanisms

The term ‘contractual’ refers to the degree to which the governance mechanism is based on a formal contract. Contracts are formal, explicit and written collaboration contracts (Ferguson et al., 2005).

The first internal contractual governance mechanism (besides a board) we discuss, is **executive remuneration.** This governance mechanism is extensively investigated in listed companies. By incorporating mechanisms like stock options in this remuneration, it is a way to align the interests of managers and shareholders (Bruce et al., 2005). But when private family firms work with outside investors, this remuneration may be used as a governance mechanism as well. Depending on whether the constituents act as stewards or agents, they should be remunerated differently (Wasserman, 2006). Amoako-Adu et al. (2011) found that family executives in dual class firms receive a higher compensation than family executives in their single class counterparts. They argue that the reason for this difference is, that the motives of family executives in dual class firms, with a higher voting power, need to be kept aligned with those of outside investors.

Formal business planning contributes to business survival (across generations) and success (Astrachan and Kolenko, 1994). Poza (1995) states that strategic planning increases family harmony and growth of the business. Although it often is a task of the board, it can also be performed without that there is a board present, and thereby serve as a governance mechanism.

Conctractual governance mechanisms can also refer to individuals like **professionals**. They may give advice to private family SMEs like adding outsiders to their boards (Danco, 1982; Schwarz and Barnes, 1991) or management (Davis and Stern, 1980). They may help in selecting outside board members (Mathile, 1988). Voordeckers et al. (2007) argue that it is the responsibility of confidents like consultants and accountants to make family firms aware of the advantages of outside directors. Professionals may also be family therapists and mediators who can help in managing differences and resolving conflicts within families and improve their communication. As management consultants they can provide assistance to the strategic planning and operations (Leon-Guerrero et. al, 1998). They can provide services by helping with the start-up of boards or management committees or when more advanced reporting systems are introduced (Corbetta and Montemerlo, 1999). For the valuation of the business, family business owners tend to look for external advice from e.g. lawyers, auditors and banks (Lambrecht and Lievens, 2008). Gallo et al. (2004) suggest that these professionals should try to convince the leaders of family firms to take certain risks and work with generally accepted financial management policies to raise their growth chances. Consultants can also help limiting the complexity in family firms by developing documents like buy-sell agreements in which rigid rules are formulated about buying into the company and/or family constitutions and about who can or cannot work in the firm (Lambrecht and Lievens, 2008). Danco and Jonovic (1981) however contend that paid advisors and consultants probably have the knowledge the owners of private firms need, but that they are seldom in the position to challenge this owner’s judgements because they work for him/her.

Nonfamily managers who are able to influence the business or the family may also act as a governance instance (Vilaseca, 2002) in family firms with shareholders that are not active in the company. These nonfamily managers can provide the necessary objectivity at the level of the management to keep an equilibrium between the top management team and the nonemployed shareholders (Gallo and Ward, 1992).

Investors or financial institutions also function as a governance mechanism in family firms (Veliyath and Ramaswamy, 2000). They bring more tangible and objective criteria into the family firm (Kepner, 1983) which may limit the authority, influence and power of the family firm (Schulze, Lubatkin and Dino, 2003a). Because they provide a source of accountability, they are mostly avoided by family firms (Sharma, 2004).

2.3.3.2. Relational governance mechanisms

Ath the other end of the spectrum, there are the relational governance mechanisms. The term 'relational' refers to the focus on social and inter-personal contact between the involved parties. So relational governance mechanisms are a more informal way to monitor and encourage desirable behavior (Leimeister et. al, 2010). Family firms can apply relational governance by using certain family governance practices (FGP). They facilitate the relationship between the family and the business (Berent-Braun et al., 2012, Mustakallio et al., 2002). In the following paragraphs, we will therefore first discuss these FGP, and then the more general relational governance mechanisms which are not exclusively applicable in family firms.

2.3.3.2.1. Family governance practices

The **family council** is a governance group representing the family. It is a structured forum through which the family is able to act as a unified body. The tasks of this council are dealing with family issues and drafting the family policy (Blumentritt et al., 2007). The critical factors that may stem from the family-ownership overlap have to be detected, monitored and controlled here (Vilaseca, 2004). It is seen as "the voice of the family" (Blumentritt et al., 2007, p. 327) and makes the flow of information and communication between the owners and the family more fluent (Vilaseca, 2002; Lambrecht and Lievens, 2008). Vilaseca (2002) also refers to junior and liquidity committees as governance mechanisms in family firms. A *junior committee* is a body in which members that are not yet of age can become acquainted with the business and the members of this committee can find out the expectations the firm has for these younger family members. This way, conflicts between the family and business may be prevented and tackled. And a *liquidity committee* is meant to attend issues between the ownership and the business. Such committees assure the family economic needs and the expectations of nonparticipation in family business ownership (Vilaseca, 2002).

Family meetings or assemblies are a forum as well. But in contrast to the family council which functions as a bridge between the business and the family, these assemblies focus only on the family. The main objective here is to preserve and strengthen the family values. It helps reinforcing the family's unity and harmony (Vilaseca, 2002), mostly also with in-laws and the youngest family members (Lambrecht and Lievens, 2008). It is a mechanism to systemize the communication within the family (Poza et al., 1997).

The **family charter** is a formal document in which the relations between the family and the business are defined, and values and ethics are addressed (Jaffe, 1990). Code Buysse suggests that in a family charter, rules for family members are laid down like the family values and vision, careers in the family business, compensation to family employers, governance of the business and the family, and the role of nonfamily members in the family business (Code Buysse II[5]). It thus concerns the family constitution: a system of rules that provides a behavioral framework (Gimeno Sandig et al., 2006; Lambrecht and Lievens, 2008). Vilaseca (2002) argues that the *family mission* in itself also functions as a governance mechanism by lessening the

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[5] Code Buysse is a Belgian corporate governance code for non-listed enterprises, of which the first version has been published in 2005. At that time, it was unique in the world. Since then, various countries have followed this example. In 2009, an updated version has been published. It offers business leaders a practical manual that they can use to bring about profitable, sustainable growth. It contains a section with specific recommendations for governance in family enterprises. (URL: http://www.codebuysse.be/en/default.aspx)

problems and solving the conflicts that may arise from the overlap of the business, the family, and ownership.

The above mentioned FGPs can also help to exert founding *family control.* This family control can also be treated as a governance mechanism (Randoy and Goel, 2003) since it gives owners the possibility to control the management. Randoy and Goel (2003) support the statement of McConaughy et al. (1998) that founding family control reduces agency costs and increases firm performance. Tsai et al. (2006) also found that family control serves as a monitoring system. Combs et al. (2010) argue that family representatives have a strategic control function by monitoring the compensation process which reduces CEO's compensation, discretion and job complexity.

And lastly, families can also decide to *prune the family tree.* This is a governance method to handle the complexity in family firms when the involvement of more family members increases the complexity of the company. When more family members get involved, there is more chance for dishomogeneity and less cohesion among the owners of the family firm and a decreasing commitment of the family owners towards the firm. An increasing family complexity can therefore affect the family business negatively, for example by replacing stewardship behavior by personal interests or restraining firm growth due to a lower commitment (Lambrecht and Lievens, 2008).

2.3.3.2.2. General relational governance mechanisms

Next to FGPs, private family SMEs can also use relational governance mechanisms that do not exclusively refer to the family dimension.

Communication is a way to govern relational exchange (Provan and Gassenheimer, 1994). A better communication is one of the mechanisms to achieve cost savings and quality improvements in small firms (Barringer, 1997). Communication is about exchanging information. The exchange of information tends to facilitate conflict management (Han et al., 1993). For small firms, who mostly have a poor relative power position and may therefore be subject to coercive power to resolve conflicts, this may provide an important advantage (Barringer, 1997). For family firms, communication seems to enhance a positive family culture and CEO succession in the family. (Poza et al., 1997). Communication is one of the important components of a positive family culture and a well-run family firm. (Poza et al., 1997). It is a powerful tool to prevent conflicts, since conflicts in family firms typically arise because of a lack of communication in the past (Fahed-Sreih, 2006). Communication about guidelines that employees should follow prevent misunderstandings in future generations and therefore helps flourish the company (Goldwasser, 1986). Communication can also be informal. Informal discussions among insiders are used by family businesses to discuss relevant issues (Gersick et al., 1997).

Informal networks coordinate flows of capital, labor and information in small firms (Mintzberg, 1979) and therefore can be considered as a governance mechanism as well.

Trust may lower transaction costs and contribute to the coordination of the management and the alliance within firms. It is recognized that trust plays a key role in the governance of economic transaction and organizations. It is the basis of relational contracting and stands in contrast with the coercion of market governance forms (Steier, 2001, 2003). Blumentritt et al.(2007) argue that family firms rely often on trust and comfort to hire and govern senior managers. Eddleston et al. (2010) argue that the right level of trust is particularly relevant for family firms as a governance mechanism. But trust plays an important governance role in most firms (Steier, 2001). Interfirm trust seems to be one of the most important safeguarding mechanisms (Dyer, W.G.J., 2003). Nooteboom et al. (1997) use the term 'habitualization' when they refer to friendship or kinship bonds between firms and which is a dimension of trust. Bosse (2009) argues that trust and reputation attend the same governance issues.

Within this respect, Fiet (1995) argues that *embedded social relations*, which refer to ongoing, trust-generating social networks, may substitute for more formalized governance mechanisms when they are tied strong enough. And Dewald et al. (2007) argue that small firms may use quasi-integration (relationship between organizations) as a means to achieve access to resources they cannot control (Golden and Dollinger, 1993; Jarillo, 1989). He refers to Blackburn et al. (1990) who found that these relationships may reduce uncertainty and improve planning and marketing activities in the firm. It may substitute for trust between firms (Dewald et al., 2007).

Closely related to this, is *social capital.* Social capital is "the ability of actors to secure benefits by virtue of membership in social networks" (Portes, 1998, p. 6). It is a governance mechanism which can generate value by reducing transaction costs like searching, screening, adjusting and enforcing contracts (Gulati, 1998). Carney (2005) argues that owner-managers enjoy advantages in building social capital because they are less subject to organizational review and their authority to commit transactions on a handshake. Social capital facilitates relational contracting with partners in external networks (Carney, 2005), and is the basis of relational governance within the firm when it is embedded in the social relationships between the owner-family and the management (Mustakallio et al., 2002).

Ownership may also serve as a governance mechanism. Concentrated ownership often serves as a monitoring mechanism. In this respect, Randoy and Goel (2003) argue that nonfounder firms should adapt ownership structures that facilitate better monitoring to govern decision making. Increasing board ownership is a mechanism that can be used to reduce agency costs (McKnight et al., 2009). But not only ownership itself can serve as a governance mechanism, but also certain specific *ownership attitudes and behavior.* This refers to owner commitment to the firm and collective norms and goals (Uhlaner et al., 2007a). Owner commitment refers to "the degree to which owners as a group feel emotional attachments, involvement and identification to the firms they own" (Uhlaner et al., 2007b p. 276; Vilaseca, 2002). And collective norms and goals refers to the extent to which owners share 'other-regarding', nonfinancial norms and goals (Uhlaner et al., 2007a, 2007b). Mustakallio et al. (2002) refer to collective goals as 'shared vision'. This ownership behavior and these attitudes serve as a governance mechanism in that owners who share common goals and a mutual commitment to the firm, tend to require less formal controls and incentives (Davis et al., 1997; Sharma, 2004). When all parties involved share a common vision, opportunism is reduced (Dyer and Singh, 1998). Interesting to note here, is that family firms tend to have more committed owners (Uhlaner et al., 2007b) and their frequent interactions contribute to creating a shared vision (Mustakallio et al., 2002) . This may partially explain why these type of firms tend to use more relational governance mechanisms than there nonfamily counterparts.

Also related to the ownership aspect, is the *shareholder meeting.* Corbetta and Tomaselli (1996) argue that this body should provide the board with guidelines on the management of the business. Vilaseca (2002) found in his interviews that the annual shareholder meeting serves as a forum for ownership participation through its interaction with the firm's governance. Conflicts in the goals and interests of owners and managers can be mitigated this way. *Shareholder education and training* may also help to align the differences in objectives and interests and raise the commitment of shareholders. This commitment may help mitigating the conflicts with the top management team (Vilaseca, 2002).

In this section we illustrated that in literature on governance in private family SMES, next to boards of directors, many[6] other governance mechanisms are described and prescribed which can also fulfill most of the governance needs of these firms. These other governance mechanisms comprise contractual and relational mechanisms. Because of their unique ownership structure, private family firms are able to combine these contractual and relational aspects (Mustakallio et al., 2002). Privately-held

[6] It must be noted here that we did not intend to make an exhaustive list of governance mechanisms, but it gives a good indication of the wide range of main alternative governance mechanisms available to private family SMEs.

firms, and especially private family firms may even rely more on relational governance practices than on contractual ones (Uhlaner, 2008; Jensen and Meckling, 1976). And while some of these mechanisms may exist at the same time next to each other (Bosse, 2009) and even complement each other (Garcia-Ramos and Garcia-Olalla, 2011), they may also substitute for one another (Pieper et al., 2008; Garcia-Ramos and Garcia-Olalla, 2011).

2.3.4. Summary

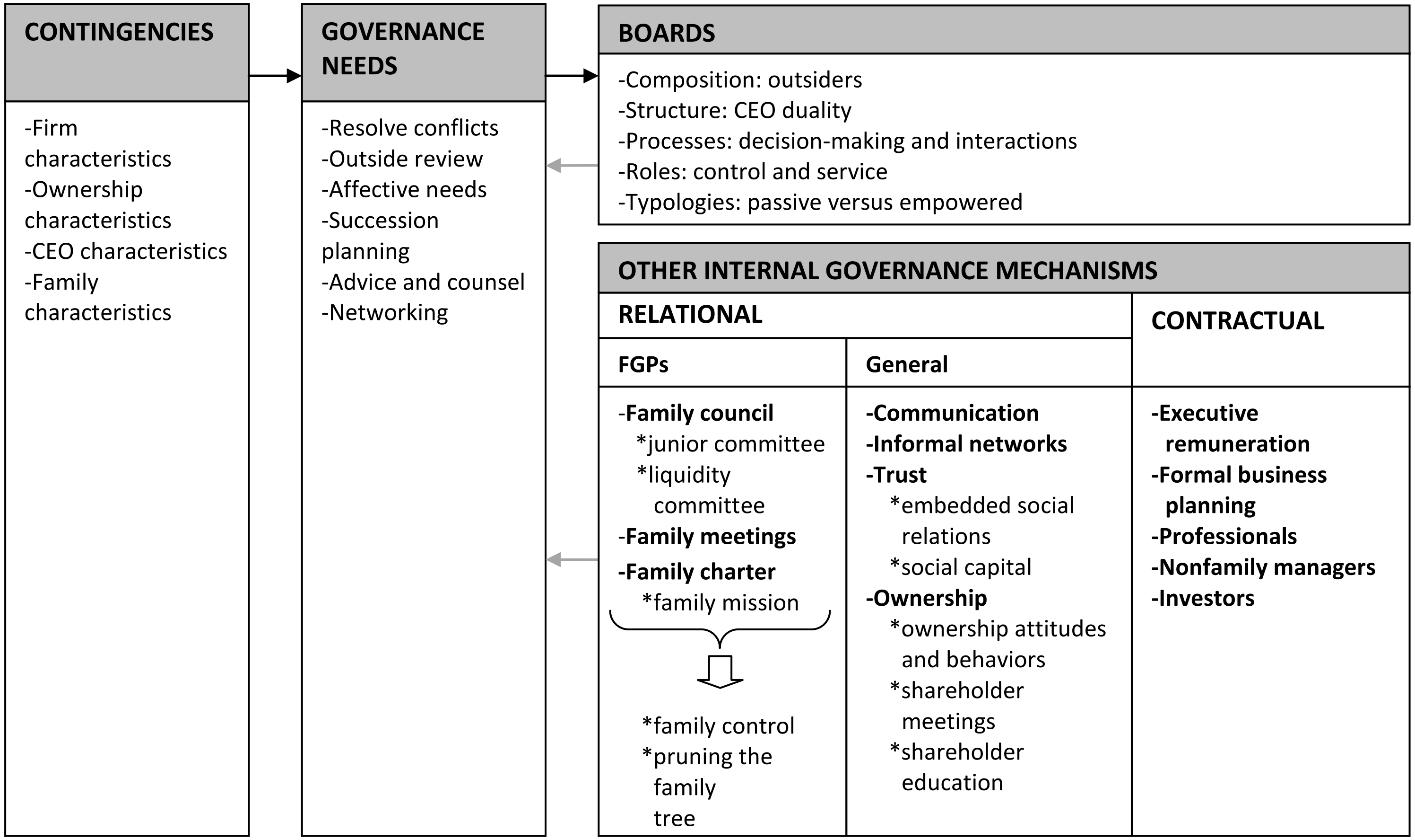
In this chapter, we reviewed literature on governance in private family SMEs which we structured around the key variables presented in figure 2.1. In figure 2.2. below, we visually present the main topics per key variable that prevailed during our literature review.

As indicated earlier, this review is composed by integrating literature on private firms, family firms and SMEs. This means that some aspects in our literature review are incorporated because of mainly one of those three aspects.

The private aspect for example provides an idiosyncratic ownership structure that has to be incorporated in the contingencies, since it may create certain idiosyncratic governance needs. For example, the need for networking and the involvement of outsiders in the strategic decision-making process, are especially prevalent for family SMEs that are non-listed. And the CEO in a private firm has much more opportunity to overrule decisions than a CEO in a listed firm. Private firms also do not need to comply with legal needs and pressure from the capital market to adapt specific governance mechanisms.

The family aspect comprises a crucial contingency aspect. It brings alternative agency problems and gives rise to other idiosyncratic governance needs like affective needs and the need for succession planning. Other needs, like conflict resolution or resources, become more prevailing when it concerns a family firm. And family firms have a large array of governance mechanisms to their disposal, which are not applicable or necessary in nonfamily firms. These are conceptualized as the FGPs.

Figure 2.2.: Literature review – overview main topics per key variable



The size aspect, which sometimes is used as a proxy for complexity, also represents an important contingency that may create idiosyncratic needs. For example, most small companies do not have a full staff of managers, and the CEO often is the founding entrepreneur who may not always have the necessary skills and experience in general management (Storey, 1994). They have fewer resources in general and depend more on external stakeholders (Pfeffer and Salancik, 1978). Therefore, the need for resources and legitimacy is especially true for smaller firms. With regard to boards, smaller firms often are less complex and informal networks give them the opportunity to be more flexible than larger firms, for which boards may be perceived more as a hindrance than as a benefit. Moreover, smaller companies often have less resources, and therefore a board may seem a costly governance mechanism (Gabrielsson, 2007). On the other hand, Johannisson and Huse (2000) and Forbes and Milliken (1999) argue that boards, through their advice and counsel towards the CEO and the strategy, may even be more important for smaller than for larger firms. In terms of governance mechanisms, it seems that smaller firms lean more towards relational norms and trust (Huse, 1993). They are associated with noncomplex governance structures (Cowling, 2003).

So each of these three features bring certain specific governance aspects with them, and by integrating these features, some aspects may reinforce each other. Like for example the problems family firms have in attracting and retaining highly qualified managers (Covin, 1994; Horton, 1986) is amplified for private family firms, because private firms often do not have the ability to offer stock options to employees (Lew and Kolodzeij, 1993; Morck, 1996). Family firms also often have limited access to external financial resources because of their desire not to share equity with nonfamily members (Sirmon and Hitt, 2003). When they are private, this feature becomes even more distinct (Schulze, Lubatkin and Dino, 2003a), because they do not have the possibility or wish to sell shares for gathering capital. Their small or medium size also may aggravate this problem, since the administration costs of small loans are relatively higher, and therefore loans to small firms may be more expensive (Bosse, 2009). On top of that, the size aspect often gives them a weak position towards suppliers and buyers (Dewald et al., 2007) and present them with a lack of economic and political power (Gabrielsson, 2007).

Based on an integration of this literature, we will define the research gap in existing governance literature for private family SMEs in the next section.

2.4. Defining the research gap

The aim of the literature review in the previous sections was to make an overview of what is known about governance in private family SMEs. First of all, we find that most attention is given to the board of directors. It is seen as "the body in charge of the family business governance" (Vilaseca, 2002 p. 310). Boards are mostly discussed in terms of board features like board composition, board structure, board processes, board roles and board typologies.

In terms of board composition, outside directors dominate the literature. The tendency in this part of literature, is that outsiders can be both positive and negative to family firms. With regard to board structure, the main focus is on CEO duality. Agency and stewardship prescriptions contradict each other in prescriptions on this topic. Recently however, it is argued that both assertions may be valid under certain conditions. The need to also study the processes of decision making and interactions within and outside the board is emerging in literature, but to date this research is largely lacking. In terms of board roles, the control, service, resource and strategy roles can be distinguished. Conclusions and prescriptions in this part of literature are leaning increasingly towards a multitheoretic view where different board roles are integrated.

By integrating these different board features, several board typologies are distinguished. To understand and explain the prevalence of these different board features, the antecedents or contingencies of these features are also a substantial part of this governance literature. However, empirical findings on board composition are mixed and sometimes contradictory and conclusions about factors determining board composition remain indefinite (Markarian et al., 2007). More insights are also needed into how board roles and behaviors vary across different family businesses (Bammens et al., 2011). And knowledge about the influence of critical contingency factors on board empowerment in small firms remains limited to date as well(Gabrielsson, 2007; Huse and Zattoni, 2008).

More recently, authors have been arguing that the relationship between contingencies and board features, is mediated by the governance needs of the company. Literature provides profound information on the governance needs of private family SMEs, a lot of them which are idiosyncratic to this type of firms. This insight of this mediated relationship is already an important step towards a better understanding of the antecedents of board features. It may explain part of the mixed or contradictory results of earlier research on this topic.

But aside from literature on boards, a substantial part of literature focuses on other governance mechanisms in private family SMEs. In fact, a whole array of other governance mechanisms that relate to the family system, the business system, or the interaction between the two, are distinguished. It is acknowledged that the board of directors and the other governance mechanisms often exist simultaneously. In our literature review, we indicated that a few authors even found that these other governance mechanisms and the board of directors may complement each other, or even substitute for one another. This implies that the aforementioned governance needs can also be fulfilled by other governance mechanisms than the board of directors.

In other words, one can distill contingencies in relation to governance needs on the one hand, and the board of directors and other governance mechanisms that can fill in those needs on the other. But since these governance mechanisms can substitute for each other, they can fulfill the same governance needs. That means that a private family SME that is confronted with certain governance needs, sometimes has to choose between different governance mechanisms, to fill in that need. Current literature is inadequate to understand how and why this choice is made. In other words, there must be processes or other variables missing in the research design that explain how a private family SME links its governance practices to its governance needs. To our knowledge, in existing literature, there is no information on these micro-processes, and we could even find no indication of the awareness of such micro-processes. This may explain previous mixed and contradictory results on antecedents and consequences of family firm governance. A better understanding of the antecedents of governance practices are important for predicting the effectiveness of these practices (Huse, 2000; Lynall et al., 2003), and it will add to the knowledge on the antecedents of board empowerment in private family SMEs.

Therefore, we formulate our research question as follows:

"What happens within the private family SME between the arising of a governance need and the implementation (or not) of a particular governance mechanism, and why?"

We hereby integrate the private, family and SME aspect and focus on governance beyond the scope of boards of directors.

CHAPTER 3: METHODOLOGY

3.1. Introduction

In this chapter we explain and illustrate the methodology that has guided this research. It is structured into two parts. In section 3.2., we explain why we chose a qualitative research approach and outline our paradigmatic stance with the resulting methodological implications. We explain how all the chosen methodological techniques fit within the chosen paradigm. In section 3.3., we illustrate the practical implementation of the methodology through the research design.

3.2. Qualitative research approach

Our research aim is to achieve a detailed understanding of what happens within a private family SME between the arising of a governance need and the implementation of a particular governance mechanism and why. We want to understand the context in which such a firm addresses this issue, and fill in important gaps in existing theory. Qualitative research is the right approach to use when the intention is to understand the world 'out there' and describe and/or explain social phenomena 'from the inside' (Gibbs, 2007). Qualitative research is also the recommended approach for developing theories when partial or inadequate theories exist or when extant theory does not adequately capture the complexity of the problem that's being examined (Creswell, 2007). A quantitative approach is in our case not desirable since quantitative studies emphasize the measurement and analysis of causal relationships (Denzin and Lincoln, 2000). Therefore, we use a qualitative research approach to answer our research question. We want to use "the ability of qualitative data to offer insight into complex social processes that quantitative data cannot easily reveal" (Eisenhardt and Graebner, 2007).

3.2.1. Inquiry Paradigm

An inquiry paradigm can be seen as "a set of basic beliefs that deals with ultimates or first principles. It represents a worldview that defines, for its holder, the nature of the 'world', the individual's place in it, and the range of possible relationships to that world and its parts" (Denzin and Lincoln, 1998 p. 200). It refers to the answers to three fundamental questions: the question about ontology, about epistemology and about methodology (Guba and Lincoln, 1994). These questions are interrelated and therefore the answer to one of them puts a constraint on how the others may be answered. In the following paragraphs we present our view on these matters. However, we are aware that "no construction is or can be incontrovertibly right; advocates of any particular construction must rely on persuasiveness and utility rather than proof in arguing their position" (Denzin and Lincoln, 1998 p. 202).

3.2.1.1 Ontology

The ontological question refers to the form and nature of reality and what can be known about it (Denzin and Lincoln,1998). Our stance regarding this topic, is that we don't believe that there is one 'real' reality. As Locke (2001 p. 9), we believe that what is taken for 'reality' is "what is shared and taken for granted as to the way the world is to be perceived and understood". In the terminology of Denzin and Lincoln (1998), this is called the **relativist ontology**. Defenders of this ontology see realities as a mental construction which thus depends on the individuals or groups holding the construction. So it is not about in how far constructions are 'true', but in how far they are informed and/or sophisticated (Denzin and Lincoln, 1998). Knowledge therefore gets accumulated by building more informed and sophisticated reconstructions (Lincoln and Guba, 2000).

3.2.1.2. Epistemology

Epistemology attends to the nature of the relationship between the knower or would-be knower and what can be known. (Guba and Lincoln, 1994; Shaw, 1999). Since we believe that realities are a construction of individuals or groups, we defend the epistemological stance that ”human beings do not find or discover knowledge so much as we construct or make it” (Schwandt, 2000). As Schwandt also puts it: we make sense of our experience by creating concepts, models and schemes which we continually test and modify in the light of new experiences. We therefore also assume that the social world can only be understood from the point of view of the individuals who are directly involved in the activities which are studied (Burell and Morgan, 1979; Denzin and Lincoln, 2000; Schwandt, 2000). This is what is called the **subjectivist epistemology** by Denzin and Lincoln (2000) and is in line with the relativist ontological stance.

The relativist ontology and subjectivist epistemology are categorized under the **paradigm of constructivism** (Denzin and Lincoln, 2000). Guba (1981) originally discussed this approach under the heading of ‘naturalistic inquiry’. This paradigmatic stance has direct implications on the role of the researcher and how we are able to gain knowledge of the world.

The role of the researcher obtains some special attention in qualitative research, especially under the assumptions of the constructivist paradigm. Since we believe reality is a mental construction and our knowledge about it is constructed rather than discovered, it is fair to say that the role of the researcher, which is to create this knowledge together with the other participants, is important in this process. Denzin and Lincoln (2000) also indicate that “the inquirer is cast in the role of participant and facilitator” of the inquiry process. This implicates that the researcher has to take into account the values that have been affecting (and even creating) the inquiry outcomes. It also implicates that the researcher’s voice is that of the ‘passionate participant’ (Denzin and Lincoln, 2000; Lincoln, 1991) who is actively engaged in the reconstruction of his/her own construction and those of all other participants.   We have tried to translate this by presenting very openly how we came to our findings and what our assumptions were at any point. This also creates a chain of evidence through which observers (readers) can follow the derivations made from our initial research question to our ultimate conclusions (Yin, 1989).

The choice for a certain paradigm also has implications for how we know the world or gain knowledge of it. The more positivist oriented paradigms aim for the development of nomothetic knowledge with a focus on similarities between objects of inquiry. It rests on the assumption that context-free truth statements are possible. From a constructivist stance however, it is assumed that generalizations are not possible, but "that the best one can hope for are 'working hypotheses' that relate to a particular context" (Guba, 1981 p. 77) because phenomena are closely tied to the time and context in which they exist (Guba, 1981). The aim of this study therefore is to formulate hypotheses that relate to the research context which offer the best fit to the phenomenon under study. This is in line with the constructivist paradigm (Guba, 1981).

3.2.1.3. Methodological considerations

The methodology refers to how the inquirer can go about finding out whatever he/she believes can be known (Denzin and Lincoln, 2000). Within the landscape of qualitative research, there is a vast variety of methods to perform the inquiry. As mentioned before, the ontological and epistemological stances are highly dependent on each other and also intertwine with the methodology that will be used to perform the research.

We have chosen for the multiple case study research strategy for several reasons. Our inquiry aim is to gain more insights into what happens within the private family SME between the arising of a governance need and the implementation (or not) of a particular governance mechanism and why. So our research question contains a 'what' and a 'why'. Yin (1994;2009) argues that when the research question is in the form of 'what', two possibilities arise. First, some types of 'what' questions are exploratory types of questions. In this case, an exploratory study with the goal to develop hypotheses and propositions for further research is justified. For an exploratory study, the five research strategies can be used: experiment, survey, archival analysis, history and case study. The second type of 'what' question, refers to 'how many' or 'how much'. For this type of question, survey or archival strategies are recommended. Since our research question is the first type of 'what' question, any research strategy could be used. But our question also contains an explanatory component: the 'why'. Yin (1994;2009) argues that when the research question is in the form of 'how' and 'why' and the focus is on a contemporary event over which one requires no control, case study research is the appropriate strategy to use. Huberman and Miles (1994) refer to case study research as the appropriate strategy to use if one wants to 'get inside the black box'. Eisenhardt and Graebner (2007) even state that case study research is one of the best bridges from rich qualitative evidence to mainstream deductive research. Case study research is conducted through intense/prolonged contact with a 'field' or life situation where the researcher attempts to capture data on the perceptions of local actors 'from the inside' (Miles and Huberman, 1994). Therefore, case study research is also perfectly in line with our ontological and epistemological point of view.

Within case study research, we still had to decide upon to work with a single case or multiple cases (Eisenhardt, 1989; Stake, 2000; Yin, 2003). We have chosen a multiple case study approach because, according to Yin (1989), evidence from multiple cases is often considered to be more compelling for which the overall study is perceived as more robust.

The research question and the chosen research strategy pose some implications on the rest of the research design, namely that of the role of extant theory, the data collection and the data analysis.

3.2.1.3.1. The role of extant theory

The role that is assigned to extant theory determines whether the research is inductive or deductive (or both). Induction refers to 'the generation and justification of a general explanation based on the accumulation of lots of particular, but similar, circumstances' (Gibbs, 2007). It refers to actions that lead to discovery of a hypothesis (Strauss, 1990). In other words, induction is used when one starts from the data to formulate conclusions. Deduction is spoken of when a particular situation is explained from a general statement about the circumstances (Gibbs, 2007). "It consists of the drawing of implications from hypotheses or larger systems of them for purposes of verification" (Strauss, 1990). Here one thus starts from existing theory and literature to explain the data.

Since our aim is to further refine existing theory by new insights, we strived to ground our findings as much as possible in the data. However, we wanted to do this without ignoring existing theory. Although Eisenhardt (1989) states that "it is begun as close as possible to the ideal of no theory under consideration and no hypotheses to test … because preordained theoretical perspectives or propositions may bias and limit the findings", she also states: "on the other hand: a priori specification of constructs can also help to shape the initial design of theory-building research". Therefore, we used abduction to build our conceptual framework. Abduction refers to a subtle mix of induction and deduction which has become the preferred approach for theory building case study research over the years (Orton, 1997; Dubois and Gadde, 2002; Van De Ven and Poole, 2002).

This abductive approach implies that we iterate continuously between existing literature and empirical data which demands but also permits a great amount of flexibility (Yin, 1994; Miles and Huberman, 1994). We started with what we knew from existing literature to define our initial research question. Then we initiated the data collection, and from that moment on a continuous iteration between existing theory, data and conclusions took place. This approach of iteration allows the research question(s) to be changed if evidence indicates more prominent issues, data collection methods can be modified, or data sources may be complemented. Miles and Huberman (1994) strongly recommend this interweaving data collection and analysis from the start. And Eisenhardt (1989) states that it is legitimate for theory-building research to alter and even add data collection methods during a study. She calls this flexibility 'controlled opportunism'.

3.2.1.3.2. Data collection

Within the chosen case study research strategy, there are several possible ways to collect data and several possible sources to collect the data from. Yin (1994) and Eisenhardt (1989) strongly recommend the use of multiple sources of evidence to develop converging lines of inquiry which is called triangulation. Triangulation means that an issue of research is considered or constituted from (at least) two points (Flick, 2007). Triangulation is possible with respect to the data sources (the use of a variety of data sources), the evaluators (the use of different investigators), the theory (different perspectives on the same data set), and the method (the use of different methods to study a single problem) (Yin, 1994). Stake (1994) argues that multiple perceptions can help to clarify meaning by identifying different ways in which the phenomenon is seen. Shaw (1999) interprets triangulation as a source of multiple perspectives and constructions which are used to gain insights into complex processes. She opposes this interpretation to the interpretation of triangulation as a means to obtain a fix on the 'true' location of evidence. And not only similarities, but also contradictions are valuable because they offer cross-validation and an extra explanation of the phenomenon studied (Robson, 1993). Conflicting views can even push the reader into a more complex set of explanations with respect for the context (Miles and Huberman, 1994).

Using triangulation for data collection and analysis is in line with the paradigm we defend. Obviously we are not striving to make a 'complete' picture of 'reality' because in our point of view there is no 'reality' that can be apprehended, not even imperfectly. What we do strive for with triangulation however, is to look at the investigated phenomenon from multiple perspectives to understand it holistically. We hereby follow Shaw's (1999) interpretation of triangulation. As will be illustrated in section 3.2.2. this also enhances the quality of the study.

Besides documents and archival data, we analyzed the interviews we took from the respondents. What has to be noted here though, is that an often raised critique about interview data is that they are retrospective. For many reasons, respondents can or will not recall the past accurately. They fall back on restricted memories or oversimplify past events (Miller et al., 1997; Golden, 1992). Indeed, because we are interested in how private family firms handle their governance needs, we were not only asking about how they are dealing with them today, but also about how they dealt with needs in the past to get a more holistic view of the contingencies at play. Asking only about current activities wouldn't have given us this full picture. The fact that we applied triangulation of data sources however mitigates this retrospectivity. It is namely unlikely that different informants will participate in "convergent retrospective sensemaking" (Eisenhardt and Graebner, 2007, p. 28).

For the selection of our cases, we relied on the theoretical sampling technique[7] since our aim is to generalize analytically, not statistically. Theoretical sampling is choosing cases for theoretical, not statistical reasons (Glaser and Strauss, 1967). These reasons may be to replicate the previous cases or extend emergent theory or to fill theoretical categories and provide examples of polar types (Eisenhardt, 1989). It means "seeking and collecting pertinent data to elaborate and refine categories in your emerging theory" (Charmaz, 2006). This is in contrast with statistical sampling where the researchers randomly select the sample from the population. In theoretical sampling, choices of informants, episodes, and interactions are driven by a conceptual question, not by a concern for 'representativeness' (Miles and Huberman, 1994). This theoretical sampling can be applied within as well as between cases. Within one case, the researcher still has many sampling decisions to make like: which people to talk to, about which activities, processes or events, which documents to retrieve. The main concern is with the conditions under which the construct or theory operates, not with the generalization of the findings to other settings (Miles and Huberman, 1994). Theoretical sampling is thus based on a replication logic (Yin, 1994) whereby every case should serve a specific purpose within the overall scope of inquiry.

This sampling affects the number of cases that eventually will be included. So we did not plan the number of cases in advance. Eisenhardt (1989) indeed states that this is not uncommon and also indicates that there is no ideal number of cases. However, she notes that a number between four and ten cases usually works well. Important is to continue sampling until theoretical saturation is reached (Eisenhardt, 1989; Charmaz, 2006).

[7] For more possible types of sampling strategies in qualitative research, we refer to Miles and Huberman, 1994, p. 28.

Theoretical saturation is reached when incremental learning is minimal because the researcher(s) are observing phenomena which they have seen before (Glaser and Strauss, 1967). Categories are therefore 'saturated' when additional data does not bring new theoretical insights, nor reveals new properties of the core theoretical categories (Charmaz, 2006). So it is not seeing the same pattern over and over again; it is conceptualizing until no new properties of the pattern emerge (Charmaz, 2006). Repetition of information and confirmation of existing conceptual categories are signals of saturation: they are pragmatic and depend upon the empirical context and the experience and expertise of the researcher (Suddaby, 2006).

3.2.1.3.3. Data analysis

Since we are aiming for more understanding of a topic of which we found that certain literature existed but was inadequate to answer our research question, we aim to further refine existing theory, based on empirical data. Therefore, we chose to work with the Grounded Theory Method (GTM) to perform the data analysis.

GTM was developed by Glaser and Strauss (1967, p. 16) and defined as "a general methodology of analysis linked with data collection that uses a systematically applied set of methods to generate an inductive theory about a substantive area". The advantage of GTM is that it is 'grounded in reality' and embedded in explanation of phenomenon rather than generalities or broad statements (Douglas, 2003). It is a practical method that focuses on the interpretive process by analyzing the "actual production of meanings and concepts used by social actors in real settings" (Gephart, 2004 p. 457). According to Glaser and Strauss (1967 p. 1), GTM is most appropriate where researchers have an interesting phenomenon without explanation and from which they seek to "discover theory from data". GTM "helps (especially with the constant comparison and theoretical sampling techniques) to come skin close to the lived experience and incidents of the management world and makes sense of them" (Fendt and Sachs, 2008 p. 448). Its procedures offer a useful systematic approach to handling and analyzing data (Fendt and Sachs, 2008). Douglas (2003) refers to it as an appropriate approach in management research because micro level concerns such as complexity and context and other unique variables demand a research method that explicates interpretive understanding and accounts for what is occurring and why (Douglas, 2003).

Since their creation, GTMs have taken somewhat different forms which can be classified under the objectivist and the constructivist approach (Charmaz, 2000). Objectivist GTM views data as real in and of themselves. It assumes that data represent objective facts about a knowable world. This perspective thus assumes an external reality which can be discovered and a researcher that is unbiased who records facts about this reality (Charmaz, 2006). The constructivist approach on the other hand places priority on the phenomena of study where data and analysis are seen as created from the experiences of the researcher and the participants and the researcher's relationships with participants (Charmaz, 2000). Given our paradigmatic stance, we followed the second approach. This implies that we acknowledge that the data analysis will reflect our thinking as researchers which we will try to present transparently in the sections below.

Note that in the definition of GTM by Glaser and Strauss (1967) above the words "to generate a … theory" are used. The GTM indeed can be used to generate a brand new theory. However, our aim is to sharpen existing theory. GTM is also perfectly suited to do this. Suddaby (2006, p. 635) for example suggests that "researchers should not overextend the objective of GTM research and therefore may shoot for 'the elaboration of existing theory' rather than untethered 'new' theory".

The definition also uses the term 'induction'. As mentioned earlier, we work with abduction. Since our aim is to refine existing theory, it seems reasonable to argue that we shouldn't ignore extant theory. It is a common misassumption that GTM implies that the researcher has to enter the field without knowledge of prior research (Suddaby, 2006). Eisenhardt (1989) for example indicates that the ideal for theory-building is to begin with no theory, but she also notes that this ideal is impossible to achieve. Miles and Huberman (1994) state that even if you are in a highly inductive mode, in qualitative research it is good to start with some general research questions. To formulate these research questions, the researcher of course has to know extant literature. Strauss and Corbin (1998) indicate that induction had been overemphasized in GTM research and that effective GTM (as all science) requires this interaction between induction and deduction. What is crucial, is that the researcher should avoid thinking about specific relationships between variables and theories, especially at the outset of the research process (Eisenhardt, 1989). For theory building (or refining) it is important that the researcher keeps an open mind. But as Siggelkow (2007) indicates: "an open mind is good, an empty mind is not". Besides, since GTM includes reasoning about experience for making theoretical assumptions and then checking them through further experience, makes GTM an abductive method (Charmaz, 2000).

This GTM determined our coding process. We followed the coding procedures as described by Strauss and Corbin (1998). This means we started with open coding. In this phase phenomena are labeled, categories are discovered and named and developed in terms of properties and dimensions. It means breaking down the data, examining them, comparing for similarities and differences (Strauss and Corbin, 1998). It can be done by the analysis of single words, by lines, by sentences or paragraphs or even an entire document. Important to note here is that not data themselves develop conceptual categories but it is the theorization of data and their phenomena that creates GTM; the theory is grounded in the data, but is not the data themselves (Douglas, 2003).

The second step is axial coding where the data are put back together in new ways by making connections between categories and its subcategories. It is not relating several of the main categories but the development of one or several main categories (Strauss and Corbin, 1998) which emerge as aggregates of the most closely interrelated open codes for which supporting evidence is strong (Douglas, 2003).

And lastly, the core category has to be selected and related to all the other categories in the selective coding. The relationships between the core category and the other categories have to be validated and those that need further refinement and development need to be filled in (Strauss and Corbin, 1998). The relating of other categories to the core category can be done by means of the paradigm model which identifies conditions, phenomenon, context, (inter)action strategies and consequences (Strauss and Corbin, 1998).

During the data analysis, data displays can play an important role. Displays are visual formats that present information systematically (Miles and Huberman, 1994). Good displays permit a viewing of a full data set in the same location (Miles and Huberman, 1994). The interaction between displays and text in a rising spiral towards new relationships and explanations is an important part of the process of qualitative data analysis (Miles and Huberman, 1994).

Data analysis in a multiple case study occurs in a layered way (Yin, 2003; Miles and Huberman, 1994; Eisenhardt, 1989). First, the researcher should "become intimately familiar with each case as a stand-alone entity" (Eisenhardt, 1989) in the within-case analysis so that the unique patterns of each case emerge before the analysis across the cases (Eisenhardt, 1989). Then, a cross-case analysis is needed to look at the evidence through multiple lenses. This results in a more accurate and reliable theory (Eisenhardt, 1989).

3.2.2. Quality Measures

Now, which criteria are appropriate for judging the goodness or quality of an inquiry? All research must respond to certain criteria against which the trustworthiness of the project can be evaluated (Marshall et al., 2006). What has to be established is the truth value of the study, the applicability, the consistency, and the neutrality (Guba, 1981). "Every systematic inquiry into the human condition must address these issues" (Marshall et al., 2006).

3.2.2.1. Truth value

The truth value of a study refers to the confidence one can have in the 'truth' of the findings of an inquiry with respect to the respondents and the context of the study (Guba, 1981; Lincoln and Guba, 1985; Robson, 1993; Marshall and Rossman, 1999). The traditional criterion (in the rationalistic paradigm) that accommodates to this truth value is internal validity. Internal validity refers to isomorphism between the data and the phenomena those data represent. This however rests on the assumption of the existence of a single reality upon which inquiry can converge (Guba, 1981). Since we don't believe in a single reality, it would be ineffective to strive for internal validity. We therefore strive for the criteria that is suggested by Guba (1981) and Lincoln and Guba (1985) which is isomorphism to respondents' perceptions. It implies we have to be concerned with testing the credibility of our findings and interpretations with the various data sources (Guba, 1981). We have to show that our inquiry is carried out in a manner that ensures that the subject of the inquiry was accurately identified and described throughout the process (Robson, 1993). Our findings need to be credible to the people we study and to our readers (Miles and Huberman, 1994). The concept that captures this alternative goal, is 'credibility' (Guba, 1981; Lincoln and Guba, 1985; Robson, 1993; Marshall and Rossman, 1999).

The techniques that are suggested by several authors (Guba, 1981; Miles and Huberman, 1994; Marshall et al.,; 2006; Charmaz, 2006; Gibbs, 2007; Creswell, 2007) to strive for credibility are presented in the table below:

Table 3.1.: Techniques for enhancing the truth value – credibility

Prolonged engagement:	Spend enough time to become intimate familiar with the setting.
Peer debriefing:	Interact with other professionals like faculty colleagues or members of a dissertation committee to test growing insights and expose ourselves to searching questions.
Triangulation:	Obtain an accurate view of the subject matter by getting more than one different view through triangulation of data sources, investigators, perspectives and methods.
Member checks:	Check with members from which data are solicited.
Constant comparison:	Make systematic comparisons between observations and categories for creating codes and develop analytic ideas about the data.

3.2.2.2. Applicability

Applicability refers to the degree to which the findings of the study are applicable to other contexts or with other subjects (respondents.) The traditional criterion in the rationalistic paradigm for applicability is external validity or generalizability. It requires that the findings of an inquiry have relevance in any context (Guba, 1981; Lincoln and Guba, 1985). Since we believe that phenomena are intimately tied to the times and contexts in which they are found, generalizing over all contexts is not possible. Therefore, we aim for transferability (Guba, 1981; Lincoln and Guba, 1985; Robson, 1993; Marshall and Rossman, 1999). This means that we aim to formulate hypotheses that "may be transferred from one context to another depending upon the degree of 'fit' between the contexts" (Guba, 1981 p. 81). The hypotheses have to be true for a wide but specified range of situations beyond those investigated in the particular study (Gibbs, 2007). The table below presents possible techniques to meet this criterion:

Table 3.2.: Techniques for enhancing the applicability – transferability

Refer to original theoretical framework:	Show how data collection and analysis will be guided by concepts and models so policy makers and research designers can decide whether the cases described can be generalized for new research policy and transferred to other settings.
Triangulate sources:	Use multiple sources of data to strengthen the study's usefulness for other settings.
Thick description/descriptive data:	Provide enough thick data and description to permit comparison of this context to other possible contexts.
Theoretical sampling:	Show that the sampling process is governed by emergent insights about what is important and relevant to maximize the range of information uncovered.

3.2.2.3. Consistency

Consistency refers to whether the process of the study is consistent, reasonably stable over time and across researchers and methods (Miles and Huberman, 1994). In traditional terms it is referred to as the reliability criterion in which instruments have to produce stable results (Guba, 1981). It assumes a single reality upon which the inquiry converges. From our paradigmatic stance however, where we believe that multiple realities exist and the researcher is 'the instrument', some portion of the observed instability is 'real' like for example insights and sensitivities that have been evolved. Therefore, the concept of consistency does not imply invariance but trackable variance which can be ascribed to sources like error, reality shifts, or increased instrumental proficiency. (Guba, 1981). The alternative criterion that has been introduced to capture this is dependability (Guba, 1981; Lincoln and Guba, 1985; Gibbs, 2007; Marshall and Rossman, 2006). The following table illustrates the suggested techniques for dealing with this consistency:

Table 3.3.: Techniques for enhancing consistency – dependability

Establish an audit trail:	Keep extensive and transparent files of the research project for potential auditing by other researchers.
Triangulate methods:	Use different methods(like interviews, documentary analysis) in tandem to overcome invalidities in individual methods.
Arrange for dependability audit:	Have someone comment on the degree to which procedures fall within generally accepted practice.

3.2.2.4. Neutrality

This issue is about neutrality and reasonable freedom from unacknowledged researcher biases (Miles and Huberman, 1994). It refers to the degree to which the findings of an inquiry are a function of subjects and conditions of the inquiry and not of the inquirer (Guba, 1981). In the positivist paradigm, the criterion referring to this neutrality is objectivity. In the constructivist paradigm, it is claimed that there are multiple realities with multiple value systems. Researchers working under this paradigm are especially aware of the fact that their own predispositions can play a role (Guba, 1981). In this line of reasoning, neutrality stands for the question whether the logic and interpretive nature of the inquiry can be made transparent to others; whether the "logical inferences and interpretations of the researcher make sense to someone else" (Marshall and Rossman, 2006 p. 203). This is captured under the alternative criterion that refers to neutrality, namely: confirmability (Guba, 1981; Lincoln and Guba, 1985; Marshall and Rossman, 2006; Miles and Huberman, 1994). In the following table, strategies are presented to enhance the confirmability of a study:

Table 3.4.: Techniques for enhancing neutrality – confirmability

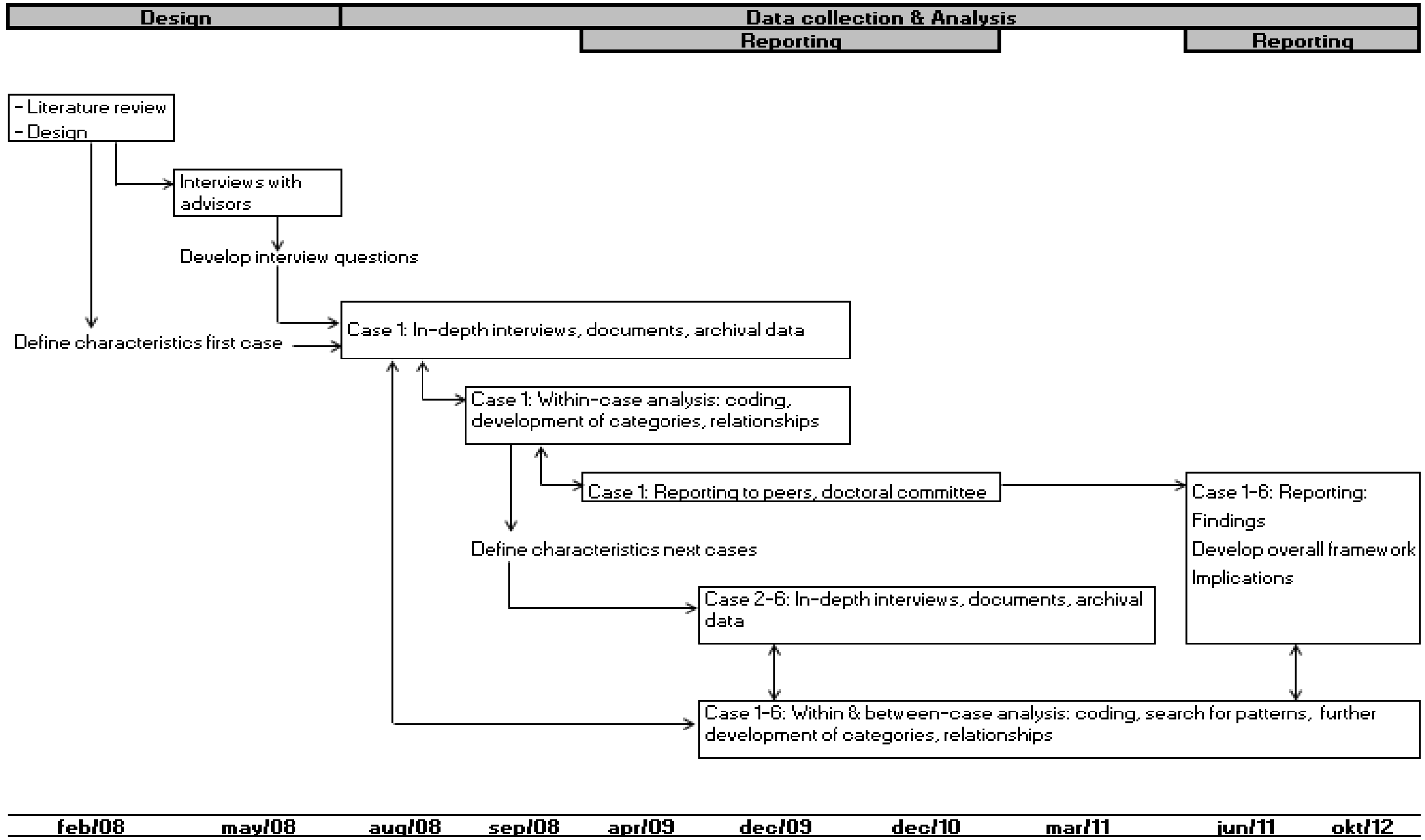
Triangulate investigators:	As far as feasible, employ other investigators to balance out predispositions.
Practice reflexivity:	Reveal underlying epistemological assumptions through which questions are formulated and findings are presented a certain way.
Enquiry audit:	Make sure data exist in support of every interpretation and that interpretations are made consistent with the available data.

How we practically tried to meet these criteria can be found in section 3.3.4. in table 3.9.

3.3. Research design

In this section, the practical research design is presented by illustrating how we applied the methodological procedures explained in the previous section. We used a multiple case study approach which is visualized in figure 3.1. below. This figure illustrates how we started with a literature review and the development of a research design. Based on this literature review, we established a gap in existing literature which we translated in our research

Figure 3.1.: Multiple case study design



question and the main topics on which we wanted to explore and explain. So we did not start with 'an empty mind' (Siggelkow, 2007) but were very eager to discover new things from practice which could help us explain how private family firms deal with their governance needs.

Then we interviewed three family businesses advisors. The interviews with the three advisors helped us to further develop relevant lines of questions and construct the interview questions for the first case. It was through one of these advisors that we were able to contact the first case.

The data collection and analysis comprises two broad phases. First, case 1 was explored by prolonged data-gathering through interviews, documents and archives. Data analysis was started already after the first interview and from then on constantly intertwined with the further data collection. Additional data were gathered until the end of the within-case analysis of this first case. In the reporting phases, findings were presented to peers and the doctoral committee. The presentation to peers happened internally at the university, but also at national and international conferences[8]. I also had the opportunity to elaborate on the methodological approach of this study at a workshop[9]. The feedback given on these gatherings was incorporated in the further analysis. Based on the analysis of the first case, the characteristics of the next cases were defined. This led to the second phase.

The second phase was gathering the data of cases 2-6 and analyzing within and between cases 1-6. Additional data of each of the cases was collected during this analysis. The findings then were again presented to peers and the doctoral committee, after which the received feedback was enclosed in the further analysis. The two-sided arrows between the data collection and

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[8] 5th workshop on Family Firms Management Research (June, 2009), VVE-dag Belgium (Oct, 2009), 1st Belgian Entrepreneurship Research Day (May, 2010), 7th EIASM workshop on Corporate Governance (June, 2010), Rent XXIV: Research in Entrepreneurship and Small Business (Nov, 2010)
[9] -Workshop in-depth and case studies in entrepreneurship and small business management where different researchers presented their papers that used or discussed qualitative research methods. (Dec, 2010)

analysis, and the analysis and reporting, visualize the intense interaction between those enactments.

3.3.1. Case selection

In this paragraph we describe the research context of this study. Then we discuss our unit of analysis and our sampling procedures.

3.3.1.1. Private family SMEs

This study has been conducted in six family firms. We chose to work with this type of firms since we want to gain more insights into what happens in these firms between the arising of a need and the implementation of governance mechanisms as indicated in our research question.

Since in family firms, next to business opportunities and requirements, the needs and desires of the owner family have to be considered (Brenes et al., 2011), it can be stated that family firms are confronted with specific governance needs. For example, conflicts may exist because of competing goals, values (Hilburt-Davis and Dyer, 2003), views (Dyer W.G.Jr., 2006), interests (Shulze et al., 2003) or ideologies (Johanisson and Huse, 2000) of different family members. They may also arise due to the disputes between generations, between different (e.g. active vs. passive) ownership constellations, or between family and non-family management (Johanisson and Huse, 2000). These disagreements between relatives concerning important business issues may paralyze the functioning of the family firm (Corbetta & Salvato, 2004; Schulze et al., 2003) and therefore, the need for mediation on these conflicts is such a typical family firm need. And even more importantly, families have an active policy toward keeping control over the firm (Van den Berghe & Carchon, 2002) and founders often see their business as extensions of themselves that he/she wants to control completely (Dyer, 1986; Lansberg, 1999 in Miller et al, 2003). Since this may result in a fear to lose control to outsiders (Daily et al, 1994), this may affect the way they handle their governance needs. Bammens et al. (2011) e.g. illustrated in their literature review that family involvement in firms affect the control and advisory tasks of boards of directors.

Now there exist several definitions of family firms varying on topics like family ownership, family management, and the intention for generational transfer. As explained in chapter 1, we chose a very broad definition of family firms to be able to establish during our research whether and how these different aspects are relevant for our research topic. We therefore adopted the following broad definition of Corbetta (1995) and Corbetta and Tomaselli (1996) of a family business: a business in which "the legal control of voting stock is held by one or a few families who are either related in some way, or share a certain degree of affinity or alliance" (Corbetta et al., 1996, p. 403).This implies we selected companies of which at least 51% of the shares is in the hands of one family.

Family businesses and SMEs are often mentioned at the same time. It is a fact that most family firms are SMEs and most SMEs are family firms (Donckels et al., 1991; Corbetta et al., 1999; Johannisson et al., 2000). Therefore, we will work with family SMEs which means they employ between 10 and 250 employees and their annual turnover or balance sheet total is between 2 and 50 million euro (definition European commission 2003). This thus excludes the very large and micro companies. Within the range of family SMEs, a further distinction can be made between private and public family SMEs. We chose to focus only on private firms. Privately owned firms may differ from publicly owned firms in terms of ownership structure, organizational structure, and the governance system itself (Bowman and Singh, 1993; Nelson, 2003; Uhlaner et al., 2007). This means that our hypotheses should be interpreted in the context of private family SMEs.

We selected firms from different industries. Different industries may lead to different governance needs in a firm (e.g. Huse, 2005; Huse, 1990; Westhead, 1999). Since we grounded our theory in our data, and kept an open mind for everything that had to do with the governance of the firm, we were also open to find any industry-related differences for the handling of those needs. However, since we found similar patterns for the *handling* of governance needs across the different industry types, we argue that industry effects don't play a role in the handling of governance needs and therefore state that our hypotheses may be generalized across different industries.

The last item that has to be mentioned to contextualize our study, is the fact that we selected cases from within a certain region in Belgium. The consequences of this strategy are twofold. First, it has to be mentioned that Belgium has a one-tier board system. This means that both executive and non-executive directors form one board. All limited liability companies are obliged by law to install such a board of directors with at least three directors. These boards have legal power over all corporate affairs which are not reserved for the general meeting and may delegate their tasks to a management team (except for some duties like e.g. exercising control). However, in practice, many family SMEs, even limited liability companies have paper or rubber stamp boards. So although these companies have a board at their disposal, a board that can fill in most governance needs, they sometimes still choose not to use this board to fill in those needs. For this reason, it may be especially interesting to find what happens between the arising of needs and the implementation (or not) of an empowered board or other governance mechanisms in this legal form of private family SME. We have chosen to select cases of one type of legal form to exclude research differences that are due to different legal requirements. Therefore, all the cases we selected are limited liability companies.

Second, we chose to stay within a certain region of Belgium because already very early in our analysis, we found that certain regional influences like courses and employers associations represented an important (institutional) influence in our framework. To understand the relations very thoroughly, we chose to stay within this region and therefore acknowledge that other regions with other types of associations may exhibit different institutional forces. Boytsun et al. (2011) for example found regional differences in the effect of informal rules on firm-level corporate governance practices due to differences in communities. Especially in Belgium, where regional and economical differences have led to the existence of three districts with their own legal and economic authority, –a Flemish, a Brussels Capital, and a Walloon district- these regional differences may be very significant.

3.3.1.2. Unit and level of analysis

By defining our research question, where we are interested to find what happens in a private family SME between need arising and the use of governance mechanisms, we identify the private family SME as our unit of analysis. So the firms represent our 'cases' of which we want to know the context to understand how our findings should be interpreted. The secondary unit of analysis is the process of dealing with a governance need within these firms. This second unit of analysis is thus in fact embedded in the first one. At the individual level, we tried to identify the roles of all the individuals involved in the governance of the firm. At the group level, we explored the interactions between all the relevant actors. And at the organizational level, we explored how all these actors and relationships shaped the governance of a private family SME.

3.3.1.3. Sampling

We applied the theoretical sampling technique to select the cases. The first case we selected (Elpa) is a private family SME that had an official BoD, but only because this is obliged by law. This board therefore functioned as a paper board. It was founded by the current CEO and a former colleague of his. Ten years later, the company became for 100% the possession of the current CEO. Six years after that, there was made an arrangement so that the ownership of the company became divided equally between himself, his wife, and his three sons. Up until the time of the interviews, the company kept growing steadily and expanded its capacity several times. In 2008, about 170 people were employed by the company. We started with this case because we were interested in how this firm dealt with its governance needs and why they did not use the opportunity to activate their board to fulfill more needs than only accommodate to the law or providing legitimacy by its mere existence. We also selected this particular case, because we knew from our network that this case would be extremely accessible. Accessibility is of primary importance for selecting all cases (Stake, 2000), but this extreme accessibility would give us an extra opportunity for further refining our interview questions and going back to the field again.

The analysis of this first case led to the development of categories and some relationships between certain categories. We felt certain categories were already quite well developed after the analysis of the first case, but others were still very unclear. For example: what came forward very strongly in the first case, was the fact that the CEO was 'very open', by which the respondents referred to as being open for advice, interested to look for advice, open for external board members in his BoA to discuss issues and confront him from time to time with problems or deadlines raised earlier. This was mentioned many times by all the respondents and we found that this attitude affected the way the governance needs were being dealt with in this firm. However, we couldn't put our finger on the exact properties and dimensions of this category and therefore selected the second case to further develop them. Therefore, the second case (Tecco) was chosen because of the characteristics of the CEO. Tecco started as a one-man business but then won a price for being the fastest growing SME in the region. In 2009 the firm employed 160 people. The CEO who founded the company and still is the only owner, has two sons. One of those sons is also involved in the company: officially since 2005, but the years before he had been involved through weekend- and holiday tasks. We had some information from our own network that the CEO of this particular case possibly had a different attitude towards advice, towards involving external people in his company. This was later confirmed in the analysis of this second case. So in fact, case 1 and 2 represent polar[10] cases (Eisenhardt, 1989) with respect to this concept.

Another aspect that was mentioned several times in case 1, was the fact that there were not any external (nonfamily) shareholders present in the company. Several respondents indicated that things could have been different if there had been external shareholders. It indeed seems reasonable to argue that external shareholders may exert a certain pressure regarding how to deal with the governance needs of the company. Therefore, a private family SME with external shareholders was sought, which led us to our third case (Cyco). The founder of Cyco owned 50% of the

[10] Polar cases refer to cases that are characterized by opposite extremes.

shares when the company was founded, and the other 50% were owned by a partner. One year later, due to some external factors, this partner decided to sell his shares to somebody else. In 1989 these shares were taken over by another person, who became actively involved in the company. In 1991, the need for extra capital caused the CEO to look for three other shareholders: the partner who had been involved at the foundation of the company, a university professor and a friend of the CEO. They became together 30% owner of the company. This brought the ownership of the CEO and the involved partner back to each 35%. In 2004, the three other shareholders sold their shares. A governmental investment company became a shareholder with 44% of the shares, the CEO enlarged his share to about 46%, and the rest was divided between five members of the management team, under which the son of the CEO. Two years later the CEO bought some shares from the governmental investment company which brought the ownership of the CEO to 60%. The governmental investment company at that time wanted to retrieve, and sold the rest of its shares to a private investment company which since then owns the company for a little less than 30%. Two members of the management team also sold their part, which resulted in three managers owning together about 10% of the company. So during the lifetime of this company, it obviously had several external shareholders being involved. So this case was not chosen to develop a particular category, but because we kept an open mind for finding possible additional categories that were relevant for our research and therefore should be included in the conceptual framework we wanted to develop. So it was chosen to extent the emergent theory (Eisenhardt, 1989).

During our analysis of these three cases, we found that the CEO/owner was extremely important in explaining how the firm dealt with its governance needs: not only his 'openness' as we indicated earlier, but also in the perception of the governance needs and the way they were being dealt with. But up until then, in the cases we analysed, the CEO was also the major shareholder of the firm. Therefore, to be able to properly develop these categories, we had to find out if this important influence was coming from the function as CEO, or as owner, or as CEO-owner. We thus wanted to define the exact properties of the categories enclosing this term. Therefore, case 4 (Velo) was selected. Velo was founded by the father, but already after two years taken over by the son. The ownership at that moment was divided 50-50 between the son and his wife. In 1978 a governmental investment company becomes owner of 30% of the shares. Around 2000, the son and his wife buy these 30% back, and become 50-50% owners again. In 2004, the wife sells her shares and the son becomes the major owner with 60% of the shares. The other 40% are bought by a VC company. This ownership structure has remained the same since then. The son also has been the CEO of the company from the moment he took over the company until around the year 2000; around that time an employee became CEO. In 2005 another external CEO was hired, but in 2007 yet another external CEO became appointed. So from around 2000, the family owner of Velo was not the CEO anymore. Instead, a nonfamily CEO without shares had been appointed since then.

Also case 5 was selected for the development of the categories referring to the CEO/owner. During our analysis, it appeared that the CEO/owner indeed had a very important influence on everything that was happening in the firm, thus also how the governance needs were being dealt with. But we did not have data to define this influence if there was not one person having a majority of the shares and the voting power. To be able to define this category further, we therefore selected the fifth case (Health) of which the ownership and voting power was equally divided between five family members. Health was founded by the father. In 2000, the father sold his shares. This resulted in an equal shareholding of 20% by the mother, the two sons, the daughter and her husband. So from that moment on, the company was mainly in the hands of the second generation: not only in terms of ownership, but also in terms of management. The son in law evolved to the status of CEO regarding long term, strategic matters, and the daughter was called the 'CoCEO' who is responsible for the more day to day operational management. The two sons were active on a more operational level. Around 2004, a grandson becomes active in the company, hereby involving the third generation and in 2006 his wife, the granddaughter in law also did. Today these two represent very important high level management functions, and the granddaughter in law is even appointed as the future

CEO. So this case not only represents a company that is owned and managed by its second and third generation, but it also represents a case where more shareholders of the same generation are equal shareholders.

The analysis of the second case led us to the further development of the category that was capturing the openness of the CEO/owner. We also had to establish the relationship between this category and other categories in the conceptual framework that was being developed. One of the ways we established these relationships, was by asking (often indirectly) about reasons certain governance needs were being dealt with in the way they did. This often led us to references to what we captured under this category of 'openness CEO/owner' (later conceptualized as 'KDM[11] independence index' as will be illustrated further). Case 2 delivered a lot of insights on this matter, since it represented an 'opposite' case of the first one. But during the analysis of case 2, we also noticed that in this context of reasons how to deal with certain needs, another fact surfaced quite strongly. The fact that the firm had only known success since it was founded (so no crisis situations), was indicated several times as a *possible* influence. Both the CEO and his son claimed more than once that they were not sure if things would be the same if they had experienced severe problems, crisis situations in their firm in the past. They explained that *maybe* their reaction to certain things would have been different. Because they mentioned this aspect several times, it appeared in our coding. Since we had to be sure about the relationships between the categories we developed and the context in which our findings would be applicable, the last case (Elte) was selected.

Elte was founded by three founders who each owned one third of the company. Two years later, the current CEO and one of the cofounders decided that the third founder had to leave the company. This left the current CEO and the other founder with each 50% of the shares. In 2002 the current CEO bought the shares of the other founder. From that moment, the current CEO became the only owner of the company. Elte is a case of which we had reason to believe that the CEO had the same characteristics as

[11] KDM refers to Key Decision Maker

the CEO of case 2 (in terms of the category), but where the firm did experience crisis situations in the past.

After selecting and analyzing these six cases, the properties of the emerging pattern were properly developed. We did not feel additional data would deliver supplementary relevant theoretical insights. There was no new or relevant data emerging regarding our categories, and our categories were densely developed, taking into account the necessary variation and processes. The relationships between the developed categories were well established and validated. Therefore, we believe we have reached theoretical saturation with these six cases for the theoretical framework we have developed.

An overview of the main characteristics[12] of the cases is presented in table 3.5. below.

Table 3.5.: Overview case characteristics

	External share-holders present?	Non-paper BoD present?	BoA present?	Family generation owning?	Family generation in manage-ment?	Family CEO?
Elpa	no	no	yes	1 & 2	1 & 2	yes
Tecco	no	no	no	1	1 & 2	yes
Cyco	yes	yes	no	1 & 2	1 & 2	yes
Velo	yes	yes	no	2	2	no
Health	no	no	no	1 & 2	2 & 3	yes
Elte	no	no	no	1	1	yes

[12] We chose not to publish any data on size or industry characteristics of these cases, to ascertain full privacy. If desirable, these figures can be attained on an individual request basis.

3.3.2. Data collection

By collecting the data, we strived for triangulation of data sources. We used semi-structured interviews, documents, and archival data of all the cases.

3.3.2.1. Interviews

In case studies, the aim is to talk with key-informants: people close to the problems the research is about or someone in the higher layers of the organization who can be some kind of sponsor (Biemans and van der Meer-Kooistra, 1994). Key informants may even be critical to the success of a case study since they not only provide more insights but also can put forward sources of supporting evidence and give the access to such sources (Yin, 1989). Therefore, we always first contacted the CEO of the firms we selected. We then asked them who else was involved in the governance of the company, and interviewed those persons subsequently, or asked to talk to people of who we thought had influence in the governance of the company after doing the first interview(s) of a particular firm[13].

For Elpa, besides the CEO, we interviewed the external accountant, one of the two external board members of the BoA, and the three sons who are actively involved in the company. Unfortunately, the second external board member was not available for interviews. But we were lucky to interview the first external board member who was involved in the BoA from its foundation, whereas the second board member had become involved some years later. So this first external board member was always present at the same times the non-available board member was, and therefore we did not have the feeling we missed information on what the contribution of this first board member was, even from an 'outsider' perspective.

The CEO/owner of Tecco has two sons, but only one is involved (but not shareholder) in the company. Therefore, only the son involved was interviewed, next to the CEO/owner.

[13] The topic list of the interviews can be found in Appendix 1

In Cyco, it was about the same story as in Elpa regarding the external board members. This company has an active BoD with two external board members which are also shareholders (together 40%) in this case. They are two brothers who own a private investment company. Only one of them was available for interviews, but it was the one that was most involved in the firm. Thus here also: the times that the other board member was involved, the first board member was also always present. Again, during our analysis, we did not feel this second board member could have given us extra information, and we feel we have reached theoretical saturation by developing our concepts. Every question that was raised during the analysis was answered by at least one of the respondents we did interview. The CEO of Cyco has one son who is active in the company and has 1,5% of the shares of the company. But he is not involved strongly, and not interested to be, in the governance of the company as became clear during the interviews. Therefore, this son was not interviewed. One other person that is involved strongly in the governance of the firm , and that we therefore did interview, was a (nonfamily) manager who would be the next CEO (future CEO) as indicated by the CEO and confirmed by several respondents.

Velo is the only firm in our research with an external CEO. Before the current external CEO, the firm had had two other nonfamily CEOs after the family CEO. We were lucky to interview all these three persons. The major owner of the firm, who took over the firm from his dad two years after the foundation, was also interviewed. He had been CEO of the company for about 30 years and now is involved in his company as member of its BoD. This major owner has two sons, but none of them is involved in the company, so they were not interviewed.

Health is a family firm that is owned by its first and second generation. But the first generation only has 20% of the shares, and isn't strongly involved in the company anymore. Therefore, if we speak of children (Table 3.5.) in this case, we refer to the third generation, of which already two persons are involved in the company: a son of one of the owners of the second generation, and his wife (daughter in law). We were not able to interview the son, but we did interview his wife, of who is said she will be the next CEO (future CEO). The other children of this third generation are still too young to be active in the firm, and certainly to be involved in the governance of it. The firm works with an external accountant, but he is not strongly involved in the governance of the firm for which we did not feel the need to interview him.

The CEO of Elte had four children, but all too young to be active in and involved in the governance of the company. Therefore, only the CEO and the external accountant were interviewed in this firm.

This strategy resulted in 29 interviews. These interviews each lasted between one and two hours, were digitally recorded and transcribed verbatim over 730 pages which is illustrated in table 3.6. below. The abbreviations of the interviewees are listed in the second column of the table, and will also be used in the references for the quotes in chapter 4.

Table 3.6.: Overview interviews

Interviews	Abbreviation	Elpa	Tecco	Cyco	Velo	Health	Elte	Total
(external) CEO	(E)CEO	4	1	2	1*	1	1	**10**
Wife CEO as CoCEO	CoCEO	/	/	/	/	1	/	**1**
External accountant	ACC	2	/	/	/	n/i	1	**3**
External board member 1	EBM 1	2	/	1	1	/	/	**4**
External board member 2	EBM 2	N/A	/	N/A	1	/	/	**1**
Previous external board member (UP)	UP	/	/	1	/	/	/	**1**
Child 1	Son (1)	1	1	n/i	n/i	N/A	n/i	**2**
Child 2	Son 2	1	n/i	/	n/i	n/i	n/i	**1**
Child 3	Son 3	1	/	/	/	n/i	n/i	**1**
Future CEO	Future CEO	/	/	1	/	1	/	**2**
Major owner (not CEO)	Family owner	/	/	/	1	/	/	**1**
Previous external CEO	ECEO-1	/	/	/	1	/	/	**1**
First external CEO	ECEO-2	/	/	/	1	/	/	**1**
Total interviews		**11**	**2**	**5**	**6**	**3**	**2**	**29**
Transcribed pages		**275**	**35**	**160**	**133**	**78**	**49**	**730**

* this interview was only recorded one minute because of technical problems with digital recorder
=> written out immediately after interview to capture as much information as possible from the interview
UP= University Professor
/ = not applicable
N/A = not available for interview
n/i = not involved, or not involved to a degree they needed to be interviewed

3.3.2.2. Documents and archival data

Besides the interview data, we gathered documents and archival data. The data we were able to collect, depended on the particular company. This is illustrated in table 3.7. The website information with data about things like the organization, the industry, the history and the annual report with data on annual return, employees was available from all the firms. Besides that, depending on the firm, we gathered company brochures with detailed company information, meeting minutes of the board and/or the family forum and other data like presentations that had been given internally in the company, and certain facts & figures. Most of this data had to be treated very confidential.

By comparing this data with the interview data, we were able to achieve a more comprehensive view of our research topics. We confronted the respondents with several topics of the documents which we did not understand, or which we wanted to know more about. For example: in one of the internal documents of Elpa, it was noted that they planned to turn their advisory board into a formal BoD in 2007. But we knew that at the time of the interviews, starting in 2008, this still did not happen. So we confronted the CEO with this: we asked him why they planned to evolve to a formal BoD, and also wanted to find out why they did not proceed with it. (Apparently they had been thinking about this because this is suggested in the Belgian corporate governance code for non-listed companies, but eventually they decided their advisory board was performing what they expected from a board.) This was important information of which we may not have known about if we did not analyse the documents. By this cross-checking of data, we achieved triangulation of methods (Guba, 1981), namely: interviews, and documentary analysis.

Table 3.7.: Documents and archival data

Docs & Arch	Elpa	Tecco	Cyco	Velo	Health	Elte
Website	x	x	x	x	x	x
Brochure	x		x			x
Meeting Minutes	x		x	x	x	
Annual Report	x	x	x	x	x	x
Other	x	x	x	x		x

3.3.3. Data analysis

Although we present it here as sequential sections, our data analysis occurred in overlap with the data collection. This means we constantly iterated between the data, our analysis, and theory. After analyzing the first data, we chose the next respondent and the questions towards him/her, or formulated new questions for previous respondents, or chose the next case. For example, in the first interview with the external accountant of Elpa, we found that the firm was working with an informal Board of Advice (BoA). Because of this knowledge, in the second interview (with one of the sons), we focused especially on the period before the foundation of this BoA. And since we performed semi-structured interviews, additional interview questions also developed during an interview. This flexible approach towards data collection is a legitimate approach since the purpose of GTM building is to understand each case as much as possible individually and in-depth (Eisenhardt, 1989).

We kept extensive fieldnotes with our initial thoughts, remarks and additional questions (Eisenhardt, 1989). We constantly took a step back and asked ourselves what the information was telling us, what we could learn from it, how it was different from what we already knew. After doing an interview, we transcribed it verbatim as soon as possible and started to analyze it. This way we prevented a data-overload.

We started to read and re-reading, listening to the tapes again and performed the coding according to the coding process as described by Corbin & Strauss (1998) and illustrated in the next paragraph. And although we started with some literature in the background to define our research question, we kept an open mind to discover anything that possibly had to do something with the governance of the firm we were investigating. In the section below, one of the things that is described, is how we used interrator checking for performing the coding. There it is clearly illustrated how one researcher, that started with limited knowledge of existing literature, first inductively creates certain codes and categories with no influence from existing literature. Initial ideas were presented to peers at the university, but also at national and international conferences and to the doctoral committee. From the presentations we received feedback and the doctoral committee also each time recommended other literature that might be relevant. The feedback and the literature led to the re-coding of the data and the re-aggregation of the categories again and again.

3.3.3.1. Coding

To analyze our data, we coded all the information we had gathered. The purpose of coding is to discover explanations to achieve understanding of the phenomena.

So the process began with open coding. The purpose of open coding is "to discover, name, and categorize phenomena according to their properties and dimensions" (Strauss and Corbin, 1998, p206). Our goal was to find out how the firms we selected were dealing with their governance needs, why they did it the way they did, who was involved and why and how, and why they did (in some cases) not activate their board (given that this board was present because of the law). From the existing literature, we distilled a list of possible board tasks, and together with some general questions about the organization, this was the basis of our first interview where we asked about all these tasks if anyone was performing that task and if so, who it was, how it precisely happened and tried indirectly to establish why precisely this person. We let the respondents tell their own story, using their own words as much as possible (Biemans and van der Meer-Kooistra, 1994). If we were not sure we understood correctly what they meant by a term, or had the feeling they might have misunderstood the term we were using, we asked for examples if they hadn't provided them already. So rather than glossing over a participant's meaning, we asked for definitions of it (Charmaz, 2006). We also asked questions to capture the context of the case (like firm and family characteristics) and the background of the respondents (like age, education, experience, attitude against corporate governance.)

Based on the answers to the question who was dealing with these tasks, together with several other examples given by the different respondents, we started to code everything we thought had something to do with the governance of the company. We reviewed the data for patterns and repeated themes. Although we started with a certain theoretical background of board tasks in family firms, we kept an open mind and had no a priori propositions. Therefore, many rounds of analyzing and reviewing interviews were needed to search for patterns and themes. For this first level of codes, we used in vivo codes[14] as much as possible, as is suggested by Glaser (1978, p. 70) and Strauss (1987, p. 33). Then we started to group themes and keywords and as patterns began to develop, the literature review was broadened to develop preliminary categories. It was a process of grouping, revising and re-grouping the first level concepts.

Although we recognized certain terms from literature or could relate a lot of them to the literature that we had in the back of our head, there were also many terms which couldn't be (directly) linked to this literature. Therefore we used abduction to form the codes and categories. For example, from the data we found that the respondents were talking about certain persons providing advice, using their knowledge and experience, or providing their networks. From our theoretical background, we could very easily link these codes to the existing theory (which is deduction) of providing service (the coding tree with all the final codes, categories and concepts can be found in table 3.8.). But since we wanted to ground our theory in our data, we kept an open mind for everything we could find in our data, not just the things we recognized. So we defined for example the code 'KDM desire to step back' inductively and classified it under the category 'KDM characteristics'. In existing theory, the characteristic of the CEO/owner that is somewhat related to this code, is CEO age. From our data however, we found that not

[14] In vivo codes refer to codes of participants' special terms; their own words.

the age, but the desire to take a step back was a contingency influencing the perceived governance needs (this is further explained and illustrated in chapter 4). This is just one of the many examples how we used a mix of deduction and induction to establish our codes, categories and concepts.

After the establishment of a range of codes and categories, we started with axial coding. The goal of axial coding is to "fit the pieces of the puzzle together" (Strauss and Corbin, 1998). Categories have to be related to subcategories by specifying the properties and dimensions of that category. Then the fractured data can be reassembled to a coherent whole (Strauss and Corbin, 1998; Charmaz, 2006). So, although we did already group many of our codes into certain categories, we now had to define the higher-level, more abstract definition of these categories. This was performed by exploring additional literature on what we thought might be applicable. This was often suggested by peers after presenting the preliminary findings, or by the doctoral committee. By developing these more abstract categories, we had to define precisely what we meant by them. In fact, by defining a category, its properties and dimensions are being developed. By doing this, we knew more precisely which codes should be included or excluded of a category. We ended up with 29 first level codes. We only kept those codes that appeared in multiple interviews and across multiple cases. After many rounds of coding and feedback and discussions, this resulted in 13 categories (we put the codes belonging to the category in brackets):

(1) Family aspects: *aspects of the owning family that influence the governance needs perceived by the KDM of that firm.* ('situation children', 'family characteristics')

(2) KDM[15] characteristics: *characteristics of the KDM that influence the governance needs perceived by the KDM of that firm.* ('KDM background', 'KDM desire to step back')

[15] In chapter IV we illustrate why we use the term KDM instead of CEO/owner

(3) Business situation: *characteristics of the firm and its situation, that influence the governance needs perceived by the KDM of that firm.* ('firm characteristics', 'pressure from stakeholders')

(4) Need[16] for service: *the need for service that the KDM perceives the firm is confronted with and which (s)he can't deal with him/herself.* ('need for advice, knowledge, experience', 'need for networking, lobbying, legitimacy, communication', 'need for capital', 'need for formalization')

(5) Need for control: *the need for control that the KDM perceives the firm is confronted with and which (s)he can't deal with him/herself.* ('need for behavioural control', 'need for output control')

(6) Choosing an alternative: *choosing a person and/or institution and/or process to fill in a governance need perceived by the KDM.* ('consult ad hoc', 'discuss regularly', 'involve systematically')

(7) Gathering information: *looking for information about who/what to use to deal with a governance need perceived by the KDM.* ('searching for info about who/what to turn to to deal with need')

(8) Mimetic institutional forces: *forces that induce mimetic behaviour to reduce anxiety about standing out as different from the rest of the crowd and as an attempt to achieve security by copying those organizations that are considered to be following the best practices.* ('organizational associations', 'courses')

(9) Normative institutional forces: *forces that induce values and norms through which one desires to behave appropriately in terms of social interaction.* ('national corporate governance code', 'family')

[16] These needs can be both business related and family related. But only the needs that contribute to the enhancement of the organizational functioning are included in this definition. This means that some family related needs like for example the need to be able to be altruistic to family members, would not be included in our definition of governance needs since it does not directly contribute to the enhancement of the organizational functioning.

(10) Hi

gh independence index: *negative stance of an individual toward new information, toward viewpoints that differ from his/her own, and a high level on noneconomic goals that do not directly contribute to the enhancement of the organizational functioning.* ('low learning frame', 'high level of noneconomic goals')

(11) Lo

w independence index: *positive stance of an individual toward new information, toward viewpoints that differ from his/her own, and a low level of noneconomic goals that do not directly contribute to the enhancement of the organizational functioning.* ('high learning frame', 'low level of noneconomic goals')

(12) B

oard attributes*: board features that are satisfying perceived governance needs.* ('board composition', 'board roles', 'board working structures')

(13) Us

e of alternative governance mechanisms: *alternative governance mechanisms that are satisfying perceived governance needs.* ('formal mechanisms', 'informal mechanisms')

By performing this axial coding, all the codes that were retained had to find 'a place in the puzzle'. We followed the suggestion of Strauss and Corbin (1998) by using the paradigm model to do this. A **paradigm model** is an organizing scheme where participants' statements are grouped into components (Charmaz, 2006). This scheme includes: causal conditions, the central phenomenon, action/interaction strategies, intervening conditions and consequences. We started to draw diagrams about the relationships that became uncovered (Strauss and Corbin, 1998). This axial coding allowed us to develop the highest level concepts, based on our data and existing theory.

The final step in the analysis is **selective coding**. In this coding phase, concepts are integrated around a core category and categories that need further development and refinement are filled in (Strauss and Corbin, 1998). From our paradigm model, we identified the 'governance needs perceived by the KDM' as the core concept to which all the other concepts were linked in some way. By working with these higher level concepts and adding new theory, we indeed found several categories that had to be filled in.

For example, first we had been drawing a direct relationship between the perceived needs on the one hand, and the fulfilment of those needs by several governance mechanisms on the other hand. However, by thinking about this paradigm, and especially about the action/interaction strategies, and by some feedback we received on a presentation, we started to realize that there was one important step missing. After the KDM perceived certain governance needs, he took some actions. It became clear that this decision making process of the KDM indeed was a very important part of the story. We felt it represented a separate concept in the framework. This led us to literature on decision making. As can be read in the literature review of this dissertation, advice is important to decision-makers and tends to build the decision-makers confidence to make quick decisions. The CEO-advisor model states that CEOs solicit information from their advisor(s), yet retain the authority and accountability for final decisions. This is a quite good description of the reality we found: first info was gathered, after which an alternative was chosen. After having evaluated the properties like: it's an action, it's a decision, who is taking this decision, the decision is about what, the highest level concept was defined as 'KDM deciding how to deal with need'.

Several coding rounds with the integration of feedback and additional literature resulted in the following data structure:

Table 3.8.: Data structure

CODES	CATEGORIES	CONCEPTS
SITUATION CHILDREN	FAMILY ASPECTS	MIX OF CONTINGENCIES
FAMILY CHARACTERISTICS		
KDM BACKGROUND	KDM CHARACTERISTICS	
KDM DESIRE TO STEP BACK		
FIRM CHARACTERISTICS	BUSINESS SITUATION	
PRESSURE FROM STAKEHOLDERS		
NEED FOR ADVICE, KNOWLEDGE, EXPERIENCE	NEED FOR SERVICE	GOVERNANCE NEEDS PERCEIVED BY THE KDM
NEED FOR NETWORKING, LOBBYING, LEGITIMACY, COMMUNICATION		
NEED FOR CAPITAL		
NEED FOR FORMALIZATION		
NEED FOR BEHAVIOURAL CONTROL	NEED FOR CONTROL	
NEED FOR OUTPUT CONTROL		
CONSULT AD HOC	CHOOSING AN ALTERNATIVE	KDM DECIDING HOW TO DEAL WITH NEED
DISCUSS REGULARLY		
INVOLVE SYSTEMATICALLY		
SEARCHING FOR INFO ABOUT WHO/WHAT TO TURN TO TO DEAL WITH NEED	GATHERING INFORMATION	
ORGANIZATIONAL ASSOCIATIONS	MIMETIC INSTITUTIONAL FORCES	INSTITUTIONAL FORCES
COURSES		
NATIONAL CORPORATE GOVERNANCE CODE (SOFT LAW)	NORMATIVE INSTITUTIONAL FORCES	
FAMILY		
LOW LEARNING FRAME	HIGH INDEPENDENCE INDEX	KDM INDEPENDENCE INDEX
HIGH LEVEL OF NONECONOMIC GOALS		
HIGH LEARNING FRAME	LOW INDEPENDENCE INDEX	
LOW LEVEL OF NONECONOMIC GOALS		

BOARD COMPOSITION	BOARD ATTRIBUTES	GOVERNANCE PRACTICES
BOARD ROLES		
BOARD WORKING STRUCTURES		
FORMAL MECHANISMS	USE OF ALTERNATIVE GOVERNANCE MECHANISMS	
INFORMAL MECHANISMS		

As shown in table 3.8., we identified six aggregate dimensions of recurrent second-order categories which are defined as follows:

(1) Mix of contingencies: *the mix of all possible events or facts that influence the governance needs perceived by the KDM*

(2) Governance needs perceived by the KDM: *the needs related to the enhancement of the organizational functioning that are perceived by the KDM, and that can't be fulfilled by the KDM alone*

(3) KDM deciding how to deal with need: *KDM of the firm decides how and by who/what perceived governance needs are being dealt with*

(4) Institutional forces: *structures and activities that give meaning to social behaviour*

(5) KDM independence index: *stance of an individual toward new information, toward viewpoints that differ from his/her own and his/her level of noneconomic goals that do not directly contribute to the enhancement of the organizational functioning*

(6) Governance practices: *shape and use of governance mechanisms that fulfil the perceived governance needs*

These are linked together by the logic of the paradigm model as illustrated in the following table:

Table 3.9.: Paradigm model

Causal conditions	Central phenomenon	(Inter)action strategies	Intervening conditions	Consequences
Mix of contingencies	Governance needs perceived by the KDM	KDM deciding how to deal with need	Institutional forces	Governance practices
			KDM independence index	

This resulted in a framework of relationships that allowed us to identify what happens between the arising of a governance need, and the use of governance mechanisms.

As suggested by Eisenhardt (1989) we used two extra researchers to perform **interrator checking**. For the first coding round, we were with two investigators who independently coded all the gathered data. Then we compared our coding schemes, and discussed the similarities and differences. Although most of the codes matched quite well, the theoretical knowledge of the extra researcher provided me with other insights. For example, I first categorized the organizational associations, courses and influence of the governance code under the category 'networks of the CEO'. By discussing the coding with the other researcher who had categorized it as institutional forces, I started to explore this literature and found that this better expressed what was going on. Therefore, this category was changed to the two categories mimetic and normative institutional forces and was further filled in by selective coding. We also presented our preliminary findings to another researcher who was intimately familiar with the first case, to check whether our findings were giving an accurate picture of reality.

We also used **theory triangulation** to construct our concepts. For example, the code 'KDM independence index' was first conceptualized vaguely as 'CEO openness'. Since this came forward really strongly already in the first case, we felt this was quite important in our framework. But we couldn't define the exact properties and dimensions of this concept, and therefore we selected case 2 and later case 6 to explore this concept further as explained earlier.

But we also explored additional literature to develop this concept which was proposed by the doctoral committee or peers. First, it was suggested that maybe 'CEO locus of control' could help defining the concept, since locus of control is a personality trait that describes whether individuals believe they can control their lives by their own actions, or that they believe that the events in their lives are caused by uncontrollable forces like luck, chance or powerful persons or institutions (Boone et al., 1996). It is a CEO characteristic that is regularly researched in relation with organizational outcomes (Boone et al., 1996, 1997), and we reasoned that CEOs believing control was coming from other persons or institutions, might be more open for advice from external people than their more internal focused counterparts. However, by exploring this literature and having the CEO/owners filling in a questionnaire[17] about this topic, we found this was not explaining what was going on.

Then, it was suggested to explore the literature on 'learning orientation'. Although we felt this was coming more close, it still did not explain precisely what we found in our data. Subsequently, it was suggested to investigate the literature on 'learning frame'. The learning frame refers to a person's attitude toward new information. How persons approach a viewpoint that is different from their own illustrates which learning frame they tend to (Foldy et al., 2009). We found that this learning frame did explain a part of the reality we were confronted with. By further exploring the data and the literature, we found that the combination of the learning frame and the level of noneconomic goals was giving a good picture of what was happening. Noneconomic goals refer to the goals that family firms tend to have on top of the traditional economic goals (Mustakallio et al., 2002, Steier, 2003; Steier et al., 2004, Sharma, 2004, Voordeckers et al., 2007). An important aspect of these noneconomic goals is the preservation of socioemotional wealth. Socioemotional wealth (SEW) or endowment refers to aspects of the family

[17] This questionnaire can be found in Appendix 2

firm that meet the affective needs of the family like for example the need to exercise authority or the need for belonging (Gomez-Mejia et al., 2007). The integration of these theories, is how we developed the concept 'KDM independence index'.

3.3.3.2. Building theory

In the previous section we illustrated how we developed the concepts abductively. Some of these concepts are fully 'borrowed' (Strauss and Corbin, 1998) from literature (contingencies, institutional forces). Other concepts use existing terms but have been more specified to reflect our data. For example: governance needs is a concept that is used in existing literature (e.g. Bammens et al., 2008; Uhlaner et al. 2007), but for us it came forward that it is about the governance needs that are perceived by the KDM as will be illustrated in chapter 4. Learning frame and noneconomic goals are also known concepts, but it is the combination of the two that helped us to develop a new concept; the KDM independence index. To our knowledge, the learning frame has not been integrated in governance or family firm literature so far. We postulate however that it represents a very important influence in explaining this phenomenon as will be illustrated in chapter 4. Theory on decision making also is established already for a long time, but the fact that we indicate it is the KDM that makes the decisions about how to deal with the perceived needs and hereby shapes the governance practices of the firm, elaborates existing theory. In fact, it is fine to use concepts from literature, however, the researcher then has to be very precise about the meanings (Strauss and Corbin, 1998). Therefore, we presented our definitions above. In the following chapter we will illustrate how these concepts have been build from particular quotes, and explain how they precisely differ (or match) existing ones.

The most important elaboration we make on existing theory however, is not the separate codes we developed, but the hypotheses we make about the relationships between them, and the insights of their importance in explaining the governance of a private family SME. For theory-building research, drawing conclusions may take the form of shaping hypotheses (Miles and Huberman, 1994). As Glaser (1992, p.29) states: "much of originality or creativity is not new ideas – since most ideas are already known in some way – but new connections between conceptual ideas”. The purpose of GTM indeed is “to elicit fresh understandings about patterned relationships between social actors and how these relationships and interactions actively construct reality” (Glaser and Strauss, 1967). The hypotheses we developed will be illustrated and presented visually in our conceptual framework in chapter 5. By developing these hypotheses and this conceptual framework, we came to a mid-range theory about the handling of governance needs in a private family SME. A mid-range theory is a theory that lies between working hypotheses and a unified grand theory. This means it involves abstractions, but stays close enough to the data to permit empirical testing (Merton, 1949). It is an essential theory about specific phenomena (Eisenhardt, 1989). Although the empirical testing is not part of this study, our hypotheses are formulated in a way that this can be done in a future study if statistical generalization is desirable.

3.3.4. Quality control

In section 3.2.2. we presented which quality criteria are appropriate for this research, and explained how these criteria can be met. In the following table we present how each technique has been interpreted in this study:

Table 3.10.: Practical interpretation of quality criteria

Credibility

Prolonged engagement:	Spend enough time to become intimate familiar with the setting.	-multiple interviews within each case -additional data gathering during analysis
Peer debriefing:	Interact with other professionals like faculty colleagues or members of a dissertation committee to test growing insights and expose ourselves to searching questions.	-discussion of results with doctoral committee - presentations of preliminary findings to peers at conferences
Triangulation:	Obtain an accurate view of the subject matter by getting more than one different view through triangulation of data sources, investigators, perspectives and methods.	-multiple data collection methods -multiple data sources within one method -theory triangulation -interrator checking
Member checks:	Check with members from which data are solicited.	-respondent checking
Constant comparison:	Make systematic comparisons between observations and categories for creating codes and develop analytic ideas about the data.	-constant iteration between data, findings and theory

Transferability

Refer to original theoretical framework:	Show how data collection and analysis will be guided by concepts and models so policy makers and research designers can decide whether the cases described can be generalized for new research policy and transferred to other settings	-literature review with all relevant literature -transparent presentation of theoretical background as starting point -clear definition of all concepts used
Triangulate sources:	Use multiple sources of data to strengthen the study's usefulness for other settings	-multiple respondents within one case -multiple cases
Thick description/descriptive data:	Provide enough thick data and description to permit comparison of this context to other possible contexts	-extensive tables with quotes and data structure -profound description of context of interpretations
Theoretical sampling:	Show that the sampling process is governed by emergent insights about what is important and relevant to maximize the range of information uncovered	-theoretical sampling of cases

Dependability

Establish an audit trail:	Keep extensive and transparant files of the research project for potential auditing by other researchers	-use of software package NVIVO[18] -database
Triangulate methods:	Use different methods(like interviews, documentary analysis) in tandem to overcome invalidities in individual methods	-interviews, documentary analysis
Arrange for dependability audit:	Have someone comment on the degree to which procedures fall within generally accepted practice	-regular feedback of peers and doctoral committee

Confirmability

Triangulate investigators:	As far as feasible, employ other investigators to balance out predispositions	-interrator checking
Practice reflexivity:	Reveal underlying epistemological assumptions through which questions are formulated and findings are presented a certain way	-transparency of espistemological assumptions and its consequences for the research project
Enquiry audit:	Make sure data exist in support of every interpretation and that interpretations are made consistent with the available data	-extensive tables with quotes -transparent reporting of research process and conclusion drawing -use of NVIVO software package

[18] An illustration of how the coding in NVIVO was done, can be found in Appendix 3

3.3.5. Ethical considerations

When sensitive information about organizations is collected and used, one needs to consider ethical issues (Pettigrew, 1990). We always first contacted the CEOs of the firms and explained them the purpose of our research, the research methods that would be used, the duration of the research, the requested involvement of the respondents, what type of questions would be posed and assured them that confidentiality would be protected as desired. We then asked them if they were interested and explained they had the right to withdraw at any moment. During the interviews and by the handover of confidential documents, we had to assure several times they would be treated very confidential. Although it would have been possible for these respondents to ask for a non-disclosure agreement (NDA) to restrict access by third parties, this has not been asked by any of the respondents. Before publishing, we did member checks with each of the respondents about all the data we wanted to include of their firm and interviews. We used pseudonyms in this dissertation to preserve anonymity (Pettigrew, 1990) and kept background information confidential; access was only approved to the research team. Therefore, any additional requests for access to the data will be dealt with on a case-by-case basis.

CHAPTER 4: FINDINGS

4.1. Introduction

In this chapter we report our findings. We follow the structure of our paradigm model for presenting the codes and categories that were formed abductively as explained in the previous chapter. Part 4.1. gives an overview of the causal conditions which comprise the 'Mix of contingencies'. Part 4.2. describes the central phenomenon which is the 'Governance Needs Perceived by the KDM'. In part 4.3. the interaction strategy is illustrated which we conceptualize as the 'KDM deciding how to deal with needs'. Part 4.4. gives an overview of the intervening conditions where we identify the 'Institutional Forces' and the 'KDM independence index'. Part 4.5. then contains the last part of the paradigm: the consequences which is in this work the 'Governance Practices'. For each code, we list some quotes of which we think they are the most representative.

4.2. CAUSAL CONDITIONS: Contingencies

As mentioned earlier, we define the mix of contingencies as 'possible events or facts that influence the governance needs of the company'. By distilling the contingencies from the cases, and classifying them into codes and categories, we end up with three types of contingencies that appear to influence the presence of governance needs: family aspects, KDM characteristics and business situation.

The category ***'family aspects'*** is constructed from the codes 'situation children' and 'family characteristics'. Table[19] 4.1. provides quotes from the data that illustrate these codes. The 'situation children' refers to the age of the children, whether the children are capable and whether they are interested to fulfil the CEO function. Code 1.3. for example illustrates how

[19] The meaning of the abbreviations used in these tables to refer to the interviewees, can be found in table 3.6. of chapter 3 (partially), and in the list of abbreviations of this study.

the family owner of Velo perceives the need to make his company independent from himself after realizing that his children are not capable of taking his place. So the children not being capable is the contingency influencing a governance need.

Important to note is that we define contingencies to *influence* the governance needs of the company, hereby referring to the fact that contingencies may not only create certain needs, but also be the cause of the fact that certain needs do not exist. For example, we find several illustrations of the fact that, because the children are too young in certain cases, the KDM does not perceive the need to think and/or talk about succession yet.

What also is an important finding, is that needs are often created as the result of a mix of contingencies. Quote 1.1. for example illustrates how one of the sons of Elpa explains that they needed to look for an external CEO to follow up this function of the father. The contingencies creating this need are first of all the fact that the dad has the desire to step back (a contingency that will be illustrated further), together with the contingency that the children don't feel ready to take over this function. In other words, if one of the children would have felt and/or been ready to take over, the need to look for an external CEO wouldn't have existed although the contingency of the father having the desire to step back also existed. In the case of Health for example, we also asked the CEO whether he already thought about this part of succession (a successor for the CEO function). He affirmed he and the rest of the family indeed had been thinking about this, but they already have someone of the next generation active in the family who is going to fill up this function. So, although this CEO doesn't feel the desire to step back at this moment, it seems fair to argue that when that moment comes in Health, this contingency won't create the need to look for an external CEO. This is important, because it illustrates how a contingency that creates a governance in one firm, does not lead to the same governance need in another firm, because it has to be considered together with other contingencies. Therefore, contingencies should be considered simultaneously and not independent from each other.

The code ‘family characteristics’ that is distilled from the data and that is influencing the needs of the company, comprises the desire for family succession and the family values. The desire for family succession creates the need to involve the children in the company in quote 1.4. In quote 1.5., it is illustrated how this desire for family succession creates the need for building structures so that the transfer of shares is done more easily. From quote 1.6. it becomes clear how the family encounters the responsibility of the employment of 150 families. This is a family value and it creates the need for ensuring the continuity of the firm. Family values are considered to be a critical asset of the family firm (Vilaseca, 2002), and represent the family imprinting in family businesses (Gubitta et al., 2002). They influence family members more than nonfamily employees (Hoy et al., 1994). Therefore, we consider family values as a family characteristic.

Table 4.1.: Data supporting the category 'family aspects'

1.1. And <u>I'm not ready for it yet, and my brothers are not ready for it either</u>, so there was no other solution than to look for an external. We only had to find him. (Elpa - son 1)	SITUATION CHILDREN
1.2. And then he was looking for someone to take over the CEO function so he could take a step back. And <u>his sons were too young</u>. (Elpa – ACC)	
1.3. At a certain point in time () that responsibility has been forwarded to me. Also because he wanted to guarantee the continuity of his company. So at that moment it was really important for him to guarantee the continuity of the company. He didn't want it to be dependent from him because it had become clear that <u>his children would never join the company or at least not in that position, since they had too little knowledge about it or didn't study for it</u>. (Velo - ECEO-2)	
1.4. I <u>don't want to sell this</u>. So then there's no other choice than involve the children. (Elpa – KDM)	FAMILY CHARACTERISTICS
1.5. We built a construction to make the <u>transfer of shares</u> to the children more easy. (Elte – ACC)	
1.6. And if we don't do it, in 5 or 10 years, if I would die, you have a problem; not me but you and <u>150 families have a problem because they might have no job anymore. That responsibility is ours,</u> so we have to find a solution for it. And that's the way this is discussed. (Elpa - KDM)	

Before explaining the category 'KDM characteristics', we will first explain what the term KDM refers to. As mentioned in chapter 3, KDM stands for Key Decision Maker. In this study, the KDM of a private family SME is the person or group of persons making the decisions about how governance needs are going to be filled in. For Elpa, Tecco and Elte, this KDM is the CEO-owner of the firm holding the majority of the voting power. For Health, where there are five family members holding an equal part of the shares and voting power, the KDM comprises two persons: the CEO and his wife. They both have 20% of the shares, just like the mother and the two brothers of the CEO's wife. But they also are involved in the higher management of the firm, where the two brothers are more involved in the day to day operations, and the mother is not involved anymore. And although two persons of the next generation are also involved in the higher management, we could distill that the CEO and his wife were the ones taking the decisions (sometimes alone, sometimes together) about how to deal with perceived governance needs. The fact that the respondents of this case call the wife of the CEO the CoCEO, only confirms this finding. And for the two other cases –Cyco and Velo- the KDM currently is the board. We found that in these two VC-backed firms, decisions about how to deal with governance needs, were taken by the board, at least since the VC-company became shareholder. So, although the family owner in these firms is still involved in making these key decisions, it is no longer the KDM of the firm. They mostly were in the years before the VC-company became shareholder in their companies however. (In Cyco, an investor had been the CEO of the company for about a year, and in that period he and the family owner were the KDM together. But before and after that period, the family owner was the KDM).

Now we have established what is meant by the term KDM, we will illustrate the composition of the remaining categories further. It has to be noted that since we also have data on Cyco and Velo of the time before the VC-company got involved, some quotes of these companies may refer to this period, which means that the KDM at that time was not the current board in the company, but the CEO-owner, or the CEO + the family owner as explained above.

The category ***'KDM characteristics'*** is composed of the codes 'KDM background' and 'KDM desire to step back'. 'KDM background' comprises the education of the KDM and the experience of problems in other firms. From the data, it becomes clear that a lower education of the KDM may cause this KDM to perceive a need to look for assistance. Quote 2.1. is an example of this. Quote 2.2. then illustrates the opposite where the CEO is doing certain things himself because he has the training of an accountant. So because of this contingency, there is no need to look for assistance on this topic. What also came forward quite strongly, is the fact that the problems the KDM has witnessed in other companies in the past, has an important influence on the perception of needs of that KDM. Quote 2.3. for example illustrates how the KDM of Elpa wants the succession to the next generation to be dealt with thoroughly because of problems he saw in another company where they did not anticipate for this succession enough.

Regarding the code 'KDM desire to step back' (quotes 2.4-6), we had first coded certain parts of these data as KDM age. We found that if the current KDM became older, he had intentions of taking some distance, especially of the day to day operations, and therefore felt the need of creating structures or involving externals to assure the continuity of the company. However, by analyzing the data further, it became clear that for one KDM, this already happened at the age of 50, while another KDM was still very active at 63. Therefore, we decided that what really matters, is the fact whether the KDM has the desire to step back, regardless his age. Examples of preliminary subcategories where this code is built on, are for example taking a distance, taking a step back, making oneself dispensable.

Table 4.2.: Data supporting the category 'KDM characteristics'

2.1. But they (name investor - CEO at that moment) and (name family owner) didn't have the capacities to elaborate that vision in managementtools. But (name family owner) has always been so clever to find people who could fill in those gaps. For a certain period, that was me, and after me that was a banker, and then the people of LRM came… so he obviously was aware of it. (Cyco – EBM)	KDM BACKGROUND
2.2. Assessing budgets, liquidity, investments. We do that ourselves. We always have started very strongly from the financial: my father has the education of accountant. (Tecco – son)	
2.3. There I saw things, well, they do their best to practice reliable governance. But it's the third generation, and I see that the cause of discussions lies within the second generation. And the third generation now is being confronted with that. And therefore I say that will not happen to me: I don't want to do that to my children or grandchildren. (Elpa - KDM)	
2.4. At this moment I'm working really hard to make sure that with these 7 officers I have a platform to make myself dispensable. It was my intention from August on, to step back very strongly if the successor would take over. That didn't work, but mentally it's still in my head to do it. So from October, I will come 4/5: I won't come on Wednesday anymore. So it is really my intention, also as a signal for: look guys, are you ready to lead Elpa. So my attitude is that that group has to be that strong so they can lead Elpa. They have to know where we're going, which resources we need to realize that and how they have to organize it. (Elpa - KDM)	KDM DESIRE TO STEP BACK
2.5. In two years, or maybe even one and a half year, I want to quit as CEO and do only innovation and PR. Because I'm still very much the face of the company. And that's what I read in that biography: he always stood outside his firm and had it led by people who could. I have people here who can lead much better than I. (Cyco – CEO)	
2.6. That only came afterwards, because we all get older, and at a certain point it's because (name KDM) wants to take some distance, that there grew the need to involve the children in the company. (Elpa - ACC)	

'Business situation' is the third category of the aggregated concept 'Mix of contingencies'. This category is composed of the codes 'firm characteristics' and 'pressure from stakeholders'. 'Firm characteristics' (quotes 3.1-3) comprise preliminary subcategories like the performance and the size of the firm, and whether the firm is operating internationally or has the intention of doing so. The KDM of Tecco for example does not feel the need for a BoD or a BoA, because his company has been growing extremely rapidly ever since its foundation and everything is going well. This is illustrated in quote 3.1.. Again, this is an example of a contingency *influencing* the governance needs perceived by the KDM, which is in this case being the cause of a need *not* to exist.

The code 'pressure from stakeholders' refers to shareholders and other stakeholders like the bank exerting pressure regarding certain governance issues in the company. Examples of this pressure that we distilled from the data are the pressure to install a BoD (quote 3.6.), to change the person fulfilling the CEO function (quote 3.4.), to change the chairman of the existing board, or to produce financial reporting. These are all examples of governance needs that come to exist because of stakeholders exerting pressure. Quote 3.5. illustrates how the absence of this pressure in Elpa is the cause of less need to formalize. Important to note here is that although an external person or firm is exerting pressure, it is still the KDM that decides at that moment whether (s)he will give in to that pressure. And we interpret that as far as the KDM at that moment wants to keep the stakeholder happy to provide the necessary capital, (s)he perceives this as a need related to the enhancement of the organizational functioning, or in other words a governance need. Quote 3.4. e.g. illustrates how this investor otherwise will 'turn off the tap'. This obviously would not add to the organizational functioning, and to prevent this from happening, the current CEO of Cyco perceived to need to change the person fulfilling the CEO function at that moment.

Table 4.3.: Data supporting the category 'business situation'

3.1. I think, because <u>our figures are good, our performance is good and our customers are very satisfied</u> about us. I think that that's a little bit a <u>luxury position</u> we have, so we don't have to think about a board. (Tecco - son)	FIRM CHARACTERISTICS
3.2. I think it has to do with the fact that (name owner) felt at a certain point in time that it <u>became too big</u> and that he needed the expertise around him to direct the company. And I think that it was a very wise decision to have him guided or to recruit people who brought external experience with them. At a certain moment you drive flat against a wall, at a certain moment you become blind, you don't see the big picture anymore. (Velo - EBM 1)	
3.3. <u>The international</u> has grown out of a local SME. First Belgium, than the Netherlands: commercially, but also production of course. Before, everything was made here; now, only 20% is made here. That means that we have to <u>operate in a more international environment</u>, and it also means that you have to work out other structures. (Cyco - future CEO)	
3.4. Because he went much too wide and became careless, and was not enough supported by the people around him who could stop him. Therefore, we had a very difficult period. And then the bank came and said, look, we proceed with you and you get rid of your companion, <u>or we turn off the tap</u>. (Cyco - CEO)	PRESSURE FROM STAKEHOLDERS
3.5. Anyway, it's a bigger firm within the sector, but it's still an SME. There are <u>no external people who have liabilities, who are shareholder</u>. In that case, it would be very different. But here we still speak about one owner, the family (name family). And then there's less need for the official than when external shareholders and directors would be involved. (Elpa - ACC)	
3.6. So <u>because LIM joined,</u> there had to come a BoD, that's evident. And so we did it, and now we have that BoD and I'm also positive about that. (Velo – family owner)	

4.3. PHENOMENON: Governance Needs Perceived by the KDM

The concept 'governance needs perceived by the KDM' that we defined earlier as 'the needs related to the enhancement of the organizational functioning that are perceived by the KDM, and that can't be fulfilled by the KDM alone', comprises two categories: the ***'need for service'*** and the ***'need for control'***.

The ***'need for service'*** is constructed from four codes. These codes are listed in table 4.4. with some examples of the data that illustrate them. The 'need for advice, knowledge and experience' appears very frequently in the data. Especially dealing with new things like a firm that had become bigger (quote 4.2.), or a change in the strategic intent (quote 4.3.) are causing the KDM to experience this need. Also, the need for replenishing the capabilities of the KDM, which was mentioned several times, is coded under this need for advice, knowledge and experience. An example of data supporting this preliminary subcategory is shown in quote 4.1.

The need to get in touch with the right people, to profile externally, to be the face of the company, to be credible, are all examples of preliminary subcategories of the code 'the need for networking, lobbying, legitimacy and communication'. These are illustrated by the codes 4.4-6.

We also categorized 'the need for capital' under this category 'need for service' as explained earlier. This need for capital is mostly induced by the growth of the company. This is illustrated in quotes 4.7-9.

The need for internal structures like an MT or a family forum or more frequent management meetings, and the need for an empowered board are coded as 'the need for formalization', also mostly induced by the growth of the firm. Quotes 4.10-12. illustrate this code.

Table 4.4.: Data supporting the category 'need for service'

4.1. So the business grew and there I felt shortcomings which I fulfilled by courses and by people. Things I didn't like that much, I had filled in by people who were better at it. That's somewhat the lifecycle.(Velo – family owner)	NEED FOR ADVICE, KNOWLEDGE, EXPERIENCE
4.2. If a company grows, you're confronted with all types of tensions. Then I not only speak of the financial aspect, but also about the human aspect, the organizational aspects; they all arise. And at that moment it is important of course to know what to do. (Name KDM) didn't have that experience and had himself supported from all sides. (Elpa - ACC)	
4.3. Knowledge in terms of organizational constructions, because we're going international. Somebody who has experience in that, and guidance I think, but I don't know yet in what, in organizations I think. (Health - CEO)	
4.4. At that time, it wasn't necessary. Now we're in a phase that we become a manufacturer of an important product and something very new, very innovative. Then you need licences and approvals. And then those employer associations can lead you to the right people: that's something they can. (Health - CoCEO)	NEED FOR NETWORKING, LOBBYING, LEGITIMACY, COMMUNICATION
4.5. When (name cofounder) was still here, those 10 years, the external relations were looked after by him. I had the feeling that (name cofounder) had more flair for it. That was more of a prejudice in fact. And for me it was a threshold to profile myself externally. (names 3 different employers associations), it was thrown away on me. I hated it to go out for dinner, so I kept very low profile. But then, (name cofounder) leaves, and then eventually someone has to be the face of Elpa, then you have no other choice. (Elpa - KDM)	
4.6.If here or there something specific has to happen, I can do something: I do know some people. (Cyco – EBM)	

4.7. (Name owner) will probably have said at a certain moment in time: I need external money, I can't finance it myself. Probably he listened here and there and to his banker or several bankers, and then a network starts. Well, a network, in the end there are not a thousand equity funds in Belgium. (Velo - ECEO)	NEED FOR CAPITAL
4.8. We needed money, we grew too fast, we wanted too much. The financial policy was not as it ought to be, and we just needed money.(Cyco - CEO)	
4.9. And then I thought: or I need to hit the breaks, or there needs to be capital. (Velo – family owner)	
4.10. We're evolving from an SME towards a middle-sized company in fact, and we feel that certain structures in our organization have to grow with it. And then you feel that here and there, I don't have to mince matters; if you grow then it's constantly, not a mess, but in the organization something that doesn't go well. And that's somewhat chaotic, and we have to adjust that. (Health - COCEO)	NEED FOR FORMALIZATION
4.11. In the past, a lot happened ad hoc. Because of the growth we realized that we had to structure: we held weekly management meetings from four o'clock until it was finished. This could be eight, nine, or seven o'clock. (Cyco - CEO)	
4.12. I feel that we're at the maximum of such a flat structure. If we grow further, I think there's no other possibility then to create formal structures with BoD etcetera. I feel we're at our maximum. (Tecco - son)	

Important to note here, is that the KDM has to perceive the need. He has to be aware of it, and be convinced it is a need. The following quote of the KDM of Elpa clearly illustrates how he started thinking about the continuity of the firm and the family succession, only after he gained the insight that it was necessary. So this need did not suddenly exist from one day to another, but the KDM suddenly became aware of it:

"And he asked us to present our company and I said: the children will not become involved in the business. And afterwards (name professor management course) calls me and says: '(name KDM), you are going to sell you company?' And I say: 'no, why on earth would I sell may company?' And he stated: 'well, your children will not become involved, and you won't live forever, so it stops somewhere.' And then it was quite for a long time I must say."

…

"Sooner or later the ownership of Elpa will fall into their hands through the succession. And so if I don't want to sell, sooner or later, they will have the ownership. And as owners they will going to have to make decisions about what to do with the company. Therefore, I said, ok, I'm not going to sell, so I have to involve my children. And then I made up the plan to involve them by means of the BoA, from the moment they graduated."

…

"I always call it: first gain the insight, and he posed that piercing question, and ok, then it further evolves."

The KDM referred to this moment of insight several times as 'a turning moment'. So this KDM gained the insight that if he did not want to sell the company, his children would inherit it. And although he always had the intention not to involve his children (because of experiences in other companies where he was a member of the board), he realized that if they were going to inherit it , the decisions about the policy would become their responsibility. Therefore, they had to know sufficiently about the company. This could only happen if they did get involved. He then decided to use his

BoA as a means to involve his children, hereby giving this BoA an additional governance task and thus empowering it. If this KDM had not perceived this need to involve his children, this need might have existed as well, but until the KDM perceives it, nothing will be done to deal with it. So the perception of the need by the KDM is crucial.

Table 4.5. illustrates the codes that are categorized under the ***'need for control'***. The 'need for behavioral control' (Huse, 2005) refers to the control of managerial misbehavior with a focus on value creation in the firm. Quote 5.1. for example illustrates how pressure from a stakeholder -a financial supplier- created the need for planning for succession. Quote 5.2. illustrates how the KDM of Elpa prefers having an engagement towards externals so that important strategic issues do not get postponed. In quote 5.3., the VC investor in Cyco explains that when they joined the company, an arrangement about the share options was made. So for Cyco, this concession to the VC was necessary (the contingency here is 'pressure from stakeholders'), and therefore a governance need.

Output control (Huse, 2005) refers to financial control with a focus on quarterly earnings and on transparency. Quote 5.4. illustrates how the CEO of Health is thinking about involving externals because he wants somebody to tell him whether they have good sales, where they are short. So he perceives the need for output control. In quote 5.5. it is illustrated how monthly reporting is done because of the pressure of the LIM as stakeholder in Velo. We interpret this as a governance need since the KDM (which was the family owner at that moment) needs the capital supplied by the LIM. And therefore he wants to keep the LIM satisfied, and thus perceives their demands as a governance need. And lastly, in quote 5.6., the external board member of Elpa states how the KDM sends out KPI's and financial reporting to the advisory board, with the question to discuss it together. So we interpret the fact that the KDM is asking himself to discuss it, as an indication for the perception of a need.

Table 4.5.: Data supporting the category 'need for control'

5.1. But I had a financial supplier who had 25% of the shares, and he wanted intelligibility with respect to succession and things like that, which is in fact quite common. (Cyco - CEO)	NEED FOR BEHAVIOURAL CONTROL
5.2. Sometimes you need people who guard you from making mistakes. And secondly, there are certain things that have to be done, but not always urgent, so you postpone them. And the presence of external directors or external advisors gives a certain light pressure so you do what you have to do. So in fact strategic issues: that you don't postpone them but effectively handle them because you have an engagement towards third parties. That can help. (Elpa - KDM)	
5.3. And when we got into the company, we made an arrangement about share options with (name CEO). So this succession arrangement has been one of the big drivers for the professionalization in Cyco. Because (name KDM) is very important for Cyco: for a long time it has been a one on one relation. Now that's a little bit less, but still a very important factor. (Cyco – EBM)	
5.4. *Did you ever consider involving externals?* I think that time will come now. *Really, why?* Because we're growing, we're approaching a certain phase, so I will do that. *Why?* For knowledge. Somebody who is used to making that step or knows that world. Who is going to tell me: there we are short, there we are short. I mean, do we have good sales, do we have good this, and things like that. (Health - CEO)	NEED FOR OUTPUT CONTROL
5.5. *The evaluation of the costing budgets: is that something that was done in the BoD?* Yes, once a month the figures had to be reported. () It was mostly the externals (LIM) who asked the questions, (name representative of LIM) and afterwards it were other, but they had the most questions.(Velo – ECEO-2)	
5.6. There are a lot of indicators, KPIs, they are completely there. One can follow very good on that basis. They have a good financial reporting as well: one can get most elements out of it. So that happens, and then, based on that, it's discussed. And for other considerations (name KDM) sends a short report about what happened, so you're aware of the issues with possibly even his reflections on it and then the question to discuss it together. (Elpa - EBM)	

4.4. INTERACTION STRATEGY: KDM deciding how to deal with needs

After the KDM perceives governance needs, he/she decides how to deal with them. Two categories rose from the codes relating to this concept: ***'choosing an alternative'*** and ***'gathering information'***.

The category ***'choosing an alternative'*** can be viewed in table 4.6. The codes inducing this category are 'consult ad hoc', 'discuss regularly and 'involve systematically'. We differentiate between 'consult ad hoc' and 'discuss regularly' by the range of topics and frequency with which the KDM turns to the same governance mechanism.

'Consult ad hoc' is turning to sources for specialized topics. After the topic has been handled, the contact usually ends. It comprises preliminary subcategories like talk about, involve, hire. Quotes 6.1-3. illustrate how the KDM turns to governance mechanisms ad hoc for certain specified problems. Especially consultants and specialists are mentioned in this context as governance mechanisms.

'Discuss regularly' comprises expressions like discuss, tell our story. This concept refers to subsequent contacts with a source about different topics. Quotes 6.4-6. illustrate how people from the KDMs network, a university professor and the accountant are examples of sources the KDM turns to, to discuss with. With the code 'involve systematically' we refer to a systematic involvement. The most important aspect of this systematic involvement, is the fact that this involvement is planned, with predetermined periods of appointments. This means that this interaction will take place periodically and not just at the moments the KDM wants it to. It refers to the involvement of formal bodies like a BoD and a BoA as illustrated in quotes 6.7-9.

Table 4.6.: Data supporting the category 'KDM choosing an alternative'

6.1. In the past I have always asked for audits because you have to know what your possibilities are, up until where you can go (Cyco – CEO)	CONSULT AD HOC
6.2. What we do regularly is hire a consultant. In the beginning of the year we hired an expert for a time and method study. A lot came of that, and we are now implementing it and the first results, the output already shows. Because of that we can lower the cost price substantially. () So that happens regularly, sometimes to guide the MT and for special items. We also hired one to structure the purchase management. (Velo – EBM 1)	
6.3. Together with my steering committee we isolated ourselves and thought about the strategy during a couple of days, under guidance of a consultant. (Elte - KDM)	
6.4. For accountancy that's almost weekly, and for legal issues I would say: once a month, a month and a half, that I have a short rendez-vous with those people to say: that's where I stand, what do *you* know about it, and what do *you* know about it. I also have networks with banks, and there I ask for information, specifically financially, and also to screen certain people. (Health - CEO)	DISCUSS REGULARLY
6.5. In fact in all areas I have several people like (name UP), so people of a certain respect, where we could tell our story to. So we were two motivated entrepreneurs and he had his people to who he talked to and from who he picked up certain things, and I also followed a lot of courses and readings at that time. (Cyco - CEO)	
6.6. So I have a plan in my head. And every week, every now and then I go through it with my accountant. Every time, you always take a step further. And then you go look if the next steps are still corresponding, or that there has to be an adjustment and why and how etcetera. That discussion I have with my accountant: he's kind of a soulmate. (Health - CEO)	

6.7. BoD is <u>every three months</u>. And every time there is taken a look at what has happened the last three months and what will happen the next three, six, nine or twelve months. (Cyco – EBM)	INVOLVE SYSTEMATICALLY
6.8. Usually I set <u>the same agenda</u>. Ten or eight days before, I also ask my colleagues of the BoD, because we are with five directors, to give me any special points they want to put on the agenda. An agenda usually has a <u>stereotype, a fixed agenda</u>, with some special issues like strategic discussions or things like takeovers or collaborations etcetera. So I set the agenda, and special issues are included and then decisions are made. (Velo – EBM1)	
6.9. And at a certain moment the <u>BoA said I had to deal with that issue</u>. What is your plan, what is your deadline, and how are you going to do it. So you are put with your back against the wall by advisors. But that's why you have them. Because if you're on your own, then you tend to push difficult decisions ahead of you. And <u>by placing that on the agenda, and keep it there, they oblige you to it.</u> To who I would have to be accountable to as managing director? If you have no BoD, to who would I have to do it? One can fool himself, but by working with people like that, they <u>keep hitting that nail</u>. (Elpa – KDM)	

The category ***'gathering information'*** encloses the code 'searching for information about who or what to turn to, to deal with the need'. This code is derived from preliminary subcategories like looking for, searching, asking, talk to people as shown in table 4.7. Quote 7.1. is an illustration of how the KDM of Elpa is looking for an additional external member for his BoA because they need someone with experience in innovation. Therefore, the KDM uses a database of the employers association that comprises a list of possible candidates for functions like that. So he turns to this database as a source of information about who to engage as an external director. Once hired, this director then was supposed to fill in the need for help on innovation. Quote 7.2. illustrates how the CEO of Health turns to his accountant when he wants to know more about succession. This accountant then refers him to a course on this topic. In quote 7.3. this same CEO explains how he asks 'his contacts' to check 'in their world' whether there are debates around a topic he is struggling with at that moment. These debates would then be gatherings of professionals on those topics, filling in his need on advice.

Table 4.7.: Data supporting the category 'gathering information'

7.1. I was looking for somebody who had experience in innovating BoA's, and actually made a turnaround in innovation. But I spoke to two people, and I didn't succeed to fill in that function. So we do it to our best ability. And so we used there e.g. the database of (name employers association). They have a database of candidate directors. And from that, I picked a few, but that didn't really meet my expectations, so that's no use. (Elpa - KDM)	SEARCHING FOR INFO ABOUT WHO/WHAT TO TURN TO TO DEAL WITH NEED
7.2.I followed a study about succession in enterprises, so family issues, minority participation, handover of shares, succession, what can and what can't be done, what can happen worst case, what's the power of minority shareholders. *And was it organized by (name employers association)?* No, that was in Leuven, and who was organizing that, I think I asked my accountant. Yes, it went through him. You see: I have my contacts. (Health - CEO)	
7.3. Sometimes I do that. Then I ask my contacts to look into 'their world' if a debate about that subject is going to happen. And then I receive that information, and then I say, I will go there, I will listen there. And that's something I need. Something about which I say, in two, three, four years I want that, and for my decision I want founded information. And then I ask, if there are discussions, wherever, I don't care, if it's in Brussels. Every week something happens there, and then in ten minutes I say, look, in 14 days I go there and there: write me in, I'm going there. (Health - CEO)	

4.5. INTERVENING CONDITIONS

By completing the paradigm, two concepts were identified as intervening conditions: 'institutional forces' and 'KDM independence index'.

4.5.1. Institutional Forces

The composition of the concept 'institutional forces' is based on two categories: ***'mimetic institutional forces'*** and ***'normative institutional forces'***. These categories are visualized in table 4.8. and 4.9. respectively.

As table 4.8. indicates, we categorize 'organizational associations' and 'courses' as mimetic forces. The 'organizational associations' refer to employers associations or family firm associations where experiences are exchanged. For example quote 8.1. illustrates how the KDM of Elpa is advised by his current external board member to start working with a BoA.

Important here is that this happened before this external was member of the board in Elpa, and at that time was joining the employers association and the platform for family firms, together with the KDM of Elpa. In fact, that is how they got to know each other.

Also important to note, is that the external board member indicates that the KDM did what he advised because of the experience in other companies. So the KDM follows the advice because the external has done it before in other companies with similar needs, and these other companies apparently turned out to be satisfied about it. So the decision of KDM how to deal with his need for advice is being influenced by this mimetic force. In quote 8.2. an example is given of how the KDM of Elpa uses a database to find an additional external board member. This database has been made by the employers association and is a list of people who may be suitable for certain jobs. And from that database, the chairman of the employers association has made a selection of possible candidates for the job the KDM was looking for. This list, and certainly the selection on that list is made based on experiences of other companies with those candidates. Therefore, this represents a mimetic force where Elpa is following a suggestion made by other firms. Quote 8.3. illustrates how the family owner of Velo heard at the employers association how other companies were using LIM as investor and ‘weren’t too bad with it’. Again, this represents a mimetic force influencing the decision of the KDM how to deal with the perceived governance needs.

The second code, ‘courses’, comprises expressions like ‘for that course one should have a board’, ‘if one doesn’t have a board there, one doesn’t count’ (e.g. quote 8.4.). Quote 8.5. clearly illustrates how the KDM of Elpa states that in that course there are people at who he looks up to, and of who he looks how they do things. And in the end he states that it was around that period that he also started with a BoA. Quote 8.6. even illustrates how the KDM of Elpa becomes aware of the need to involve his children, even if they were not going to be active in the company, because they would inherit it as owners. Here the mimetic force influences the *needs* the KDM perceives.

Table 4.8.: Data supporting the category 'mimetic institutional forces'

8.1. I think there was the demand or the need, a demand for the process of succession and the involvement of the second generation in the governance of the firm. So we advised to evolve towards a BoA, and further they also consulted us about whether to accommodate the shares in STACK, a foundation, in an administrative office. I think, I gave them some advice there, but they also asked further advice from specialists and things like that. But I understood that (name KDM) eventually indeed said what I recommended because of the experience in other companies. (Elpa - current EBM: was in network of KDM, before BoA existed)	ORGANIZATIONAL ASSOCIATIONS
8.2. We were looking for a third person. Especially to help us with the innovation aspect. And there we consulted that database of (name platform for family firms). (Name chair platform) made a selection on it, we created around 10 names from it, and then I contacted a few names. And then we were very close with (name candidate) in fact to make him director or advisor, but then he got into a whole different situation with (name company) and a new shareholder which could create conflicting interests towards Elpa. And so we didn't find a third director. (Elpa - KDM)	
8.3. In Limburg the phenomenon existed that they wanted to invest in companies in this region. Through the (name employers association) I heard that other members took that step, and that they weren't bad with it. So I thought, for me that's also an opportunity to be able to grow fast. Because we were in a phase at that time that we were investing pretty much, and so we felt that if we wanted to grow further, and you go overinvest, then the equity capital suffers. So I thought, or I have to hit the breaks, because at that time we were still mainly in the rental segment and we had seen other companies in the rental sector go down, not in the same branch, but in party materials etcetera. They also invested too rapidly, invested themselves until they were broken down, and then I thought, or I have to hit the breaks, or there needs to be capital. And then LIM offered that opportunity. (Velo – family owner)	

8.4. I don't have a BoD. In (name managementschool), I followed that course there, I invested pretty much time in it, and there they tell you: you should at least have a BoA. () Indeed, <u>if you don't have a BoA or a BoD there, you don't play along.</u> (Elte - KDM)	COURSES
8.5.I learned a lot from that, and then in that period, it must have been 99-2000, I joined (name course) of (name managementschool), () Their academic approach and their practical approach in that team, the group for growing companies, under the leadership of (name professor), that brought me tremendous lots of insights. So that things are being dealt with in an academic way, and they test the practices of 20, 24 members of that group, they test. There are guys like (name), like (name), like (name): <u>there are guys to which one looks up to and of which you say: he does it like that, and he does it like that. And on the other hand we are working on things like EFQM of which they say: I don't really know that, how do you do that. So you're pollinating each other in fact</u>. And that are two things of which I say that are good decisions that I took there to achieve more insights there regarding certain topics, and also because of (name course), around 2001, don't ask me for the exact date, but in that period we founded our BoA. (Elpa - KDM)	
8.6. When I got that <u>piercing question from (name professor managementschool)</u>. That has been a turning point for me () when we said we have to deal with this succession in a organized, systematic manner. (Elpa – KDM)	

In table 4.9., quotes representing the category ***'normative institutional forces'*** are given. They're categorized in two codes: 'national corporate governance code', and 'family'. The 'national corporate governance code' assembles quotes illustrating how companies use this code as a guide to know how to work with a family forum, how to use their board, how to formalize (quote 9.1.-3.). Expressions like 'how we *should* do it' refer to the normative power this governance code has on the way the needs are being fulfilled.

Quotes 9.4. and 9.5. illustrate the code 'family' where the family values are influencing the way they handle their governance needs. Here also, words like 'one should', 'one has to' illustrate how the family values are exerting a normative pressure. Quote 9.4. illustrates how these family values first of all cause them to perceive the need to ascertain continuity of the firm, but second also influence the way this need is being dealt with on a structural basis.

An important note must be made here. We illustrated in section 4.2. that it is important that the KDM is aware of the governance needs. But not only the awareness of the need, but also the conviction that there is a need, is important. Quote 9.1. in the table below illustrates how the KDM of Elpa indicates that they follow the 'rules' of code Buysse to organize their family meetings. However, this same KDM indicated that other 'suggestions' of institutional forces were not followed (although they thought about it thoroughly), because he felt there was no need for it, that it would not contribute to their organizational functioning. We will illustrate this with the quote below.

We discovered in the meeting minutes of the board meetings, that one of the discussion points had been to evolve from an advisory board to a formal BoD or not. Therefore, we confronted the KDM with this and asked him why they had been thinking about it, and why in the end they decided not to go through with it. He answered the following:

"Why to implement a formal BoD instead of a BoA, that was back then the insight of the, if you want to apply the code Buysse consequently, than you

have a formal BoD. So I thought: let us do that hey, if you want to apply the code Buysse, hmm, but does it bring us something more than? And, it doesn't bring us something more, because you have there the liabilities of directors etc, while the added value is the consultation with your external people, with your external, call it advisors or your external directors, that brings the add…, the surplus value. Do they have to have that title of director then? Is that, it maybe gives another image for the outer world, but who lies awake for that?"

...

"And call it a BoA, so why a formal BoD: code Buysse, but I don't want to place myself in that cocoon, in that straitjacket of code Buysse."

This quote clearly illustrates that institutional forces can only have an impact when the KDM perceives a related governance need.

Table 4.9.: Data supporting the category 'normative institutional forces'

9.1. So once a month we gather at (names sons) places, or at my place, there where the meeting is. It's always on Sunday before noon, from half past nine until one o'clock. That's always on relocation. The person at whose place the meeting is, composes the agenda and passes it on a week before. And the one at whose place the next meeting is, makes the report. So we do make, you saw it, we actually make reports of those meetings. <u>We follow the principles of code Buysse there. () How we have to do it, we take code Buysse, and there it is described what is actually expected of that story,</u> and so we work around it. (Elpa - KDM)	NATIONAL CORPORATE GOVERNANCE CODE (SOFT LAW)
9.2. Yes, I attended some sessions at that time, also of <u>code Buysse</u> at the time we were formalizing. So look, ok, <u>how do we have to organize that.</u> (Velo - ECEO-2)	
9.3. *Now, suppose that LRM didn't demand for a BoD with externals, do you think that would have evolved that way from itself?* Yes, absolutely. *Or do you think it would have remained more informal?* No, <u>we certainly would have done it, because it was also the time of code Buysse.</u> (Cyco - CEO)	
9.4. I think <u>we saw our responsibility</u> as shareholder all about at the same time: that we had something to care for because it's the destiny of several employers you have in your hands in fact. So <u>you can't handle it lightly, you have to make sure that you manage it decently</u>. And that responsibility , that came over us all about at the same time, because dad sent us to the right lectures, so he induced that somewhat, but in the end it came from us to say: we have to do something structurally here. Not just talk about it and do it like that, no, we are going to do something structurally to <u>take care of things</u>. (Elpa - son 2)	FAMILY
9.5. From the family we have certain aspects: we have six family values which are very important to us, to which we attach a lot of importance to. And we want, whish, that there where we have the majority from out of (name holding), and that's Elpa, we <u>want that those family values are known and practiced</u>. And that's a very difficult exercise. Because we have for example also (name consultant) to help us with this. (Elpa - KDM)	

4.5.2. KDM independence index

The concept 'KDM independence index' is composed of the categories ***'low independence index'*** and **'high independence index'**.

Table 4.10. illustrates the quotes supporting the codes of the ***'high independence index'***. These codes are: 'low learning frame' and 'high level of noneconomic goals'. The 'low learning frame' code refers to the fact that the KDM has the feeling that (s)he knows his/her firm best, that others are not able to contribute. This is illustrated in quotes 10.1.-3. The 'high level of noneconomic goals' code was appointed to quotes referring to the desire for authority, not to be accountable, the attachment to the firm (Quotes 10.4.-6.). These noneconomic goals thus refer mainly to the preservation of socioemotional wealth; the aspects of the family firm that meet the affective needs like for example the need to exercise authority or the need for belonging (Gomez-Mejia et al., 2007).

It must be noted here that with the codes including 'noneconomic goals', we refer to noneconomic goals that do not refer to the enhancement of the organizational functioning, and therefore are not considered as governance needs. This is an important distinction, since other noneconomic goals like e.g. the need to resolve family conflicts that otherwise may paralyze the organizational functioning, do refer to the enhancement of the organizational functioning, and therefore can be seen as governance needs.

The quotes in table 4.10. illustrate how this high independence index is causing these KDMs not to work with certain governance mechanisms (again), and especially that the systematic involvement of a board is undesirable (e.g. Quote 10.4.-6.). This independence index thus influences how the KDM is dealing with the perceived governance needs.

Quote 10.3. even illustrates how the KDM of Elte would prefer selling the company over involving investment companies. We saw earlier how pressure from external stakeholders can act as a contingency that creates certain governance needs in a private family SME. From this quote, it thus becomes clear that the high independence index of the KDM even causes certain contingencies (pressure of external stakeholders) not to exist.

Table 4.10.: Data supporting the category 'high independence index'

10.1. (Name audit firm) did an audit once. But if I say afterwards, I paid a lot of money for that, and what did it bring me? Nothing, actually. I couldn't do anything with it. So in fact that was seriously disappointing, and therefore I will never do that again. (Eletrotechnics -KDM)	LOW LEARNING FRAME
10.2. No, because I think, I don't learn there (employers associations) in fact. I'm quite autodidactic I would say: I will figure it out myself. (Health – CEO)	
10.3. Those investment companies: they address somebody to your firm who is going to help you. Well, I don't need that help, because that type of firms, we're talking about technical issues here, they don't know a thing about it. With all due respect, other things they know well, but not that. So I'd rather sell it to a group which does the same, where the knowledge is present, and that those people actually add something. Plus: if I sell something, I sell it completely, not half or something like that. (Elte –KDM)	
10.4. I hear a lot at (name employers association), and I hear that official BoDs are being held. We do it on paper. That there are external advisors coming to give their advice: I'm not against it, but I feel personally, I'm too realistic. I see it too linear. I always say: I will run my business, and if I decide today: that's how it will go, then I decide that today. And tomorrow it's being executed like that. I'm not somebody who first wants to organize six meetings about it, involve externals to discuss. I'm a do-er, and that's what prevents me from involving externals. (Tecco - KDM)	HIGH LEVEL OF NONECONOMIC GOALS
10.5. At a certain moment I came to the point to begin with a BoA. *And where did you get that idea?* From (name managementschool): if you don't have of BoA or a BoD there, then you don't play along. *And so you decided not to do it: do you remember what you were thinking at that time?* Maybe the obligation of every two weeks or every month to come with figures and explanations. And I didn't see what I would have to talk about with those people. Talking every month about figures, yes, well, you can talk about figures behind the comma, that's… I say, I will see when I have the need to talk to someone when the problem occurs. (Elte – KDM)	

10.6. *Suppose an external CEO would come: would you have problems with that?* You mean, for directing? *Yes.* Yes, well, than it's him or me, not with two. *No, but suppose you choose for whatever reason, e.g. age that you want to take a step back, and your son prefers working with his own business: how would you look at involving an external CEO?* I don't think that would work for me. No? No, then he has to do it. It's or selling, or (name son) doing it. I mean: it's our baby, we raised it, and then giving it to somebody elses hands? I don't think so, I don't think so.(Tecco –KDM)	

Table 4.11. shows how the category ***'low independence index'*** is composed.

The code 'high learning frame' is illustrated by KDM's using expressions as 'let's discuss', 'the more, the merrier' and being referred to as open. Quotes 11.1 and 2. illustrate how this is mentioned by other people (the external board member and the accountant respectively) than the KDM himself.

The remaining quotes in table 4.11. are categorized under the code 'low level of noneconomic goals'. Quote 11.4. illustrates how the CEO of Cyco does not feel the urge to have his son as successor (his son works in the company, but prefers not to become CEO. He does have shares of the company). We interpret this as a low level of noneconomic goals. Quote 11.6. illustrates how the CEO of Cyco, who has been the KDM of the company for a big part, is not interested in holding the power. Quote 11.5. illustrates how the family owner of Velo (who has also been the KDM of the firm for a substantial period) indicates that he ceded power, and that it was not easy. Although it becomes clear that this owner probably is not at the lowest extreme of the independence index (if one were to express it in terms of a continuous scale), it illustrates that he preferred to cede power above keeping externals out. He also could have chosen to sell the company, or to not involve the externals. This last option might have been detrimental to the firm. So this KDM chose for the welfare of the firm, above his desire to keep the power. Therefore we classified this quote under the low independence index.

It must be noted here that this influence of the KDM independence index can only be found in private family SMEs where there is no VC-investor. There are two reasons for this. First, because if a VC-investor is involved in the family SME, he/she is also part of the KDM. The objectives of such an investor towards his/her investments are purely economic, and he/she does not have noneconomic goals towards the family firm. Second, the family owner that is also part of the KDM, will not be able to let his/her individual independence index play a role in deciding how to deal with governance needs.

Quotes 11.1., 3., 4. en 6. are quotes about family owners in Cyco and Velo. These companies were VC-backed at the time of the interviews, but as mentioned earlier, we also involved quotes of these companies that refer to the past, when these family owners were the KDM. Quotes 11.3. and 11.5. are such quotes. Quotes 11.1. and 11.4. are quotes about these family owners that refer to the time of the interviews, and therefore the family owner was not the KDM at the moment these quotes were spoken. We included these quotes anyway, because we think they illustrate the dimensions of the independence index very clearly. And since they refer to family owners that were KDMs at some point, they are relevant for our study. Besides, quote 11.5. illustrates how the KDM of Velo decides to let other people (and he refers to the VC-investor at that moment) become involved and let them do it 'their way'. So it refers to the moment that the KDM in Velo evolves from the family owner alone, to the family owner and the rest of the board members with inclusion of the VC-investor. We argue that if this KDM would have had a high independence index, this would never have occurred. We illustrated earlier already (quote 10.3.) that the KDM independence index also influences the contingencies (in this case the presence of external investors) of the firm.

Table 4.11.: Data supporting the category 'low independence index'

11.1. (Name KDM) is somebody that feels if someone wants to think along and work along and who says: let's discuss this, let's discuss that. (Cyco - EBM)	HIGH LEARNING FRAME
11.2. No, I think it's the other way around. I think it's because of building relations, his search for solutions, that he came to those relations, not the other way around. It's not because of the people of the external advisory board, or because of me, or anybody else that he built those relationships. It's because he is open to it, also by the fact, by the pressure of the growth, that he consciously started to look for people, external people, to guide him. So I think that has to be written on his account completely. (Elpa - ACC)	
11.3. *And that transfer from not a formal board, not on active board, towards a BoD with a lot of people: was it hard, was it a difficult transfer that all of the sudden people were involved in your policy?* (shakes his head) no: the more the merrier. (Cyco - CEO)	
11.4. Everybody talks about those family issues. And if I talk with other company leaders; that drive to pass the business on to their son… I miss something there, I never saw it like that. I see it like in the first place it's a product, a company that has to survive well, whether that is with or without children. (Cyco - CEO)	LOW LEVEL OF NONECONOMIC GOALS
11.5. For me, ceding some power wasn't evidently either. From the moment you say, I will involve other people to do it, then you have to accept that they do it their way and not my way. So that's ceding power. And those people who crave for power, I don't think that they will function well with a BoD because they will dominate all the time: they will have the majority of the shares and the others are there as token members. (Velo – family owner)	
11.6. I've always had a very open policy: first always informally, later formally having audits done on all areas. And I think, and I'm probably a somewhat a-typical entrepreneur: an entrepreneur keeps everything (makes gestures with his arms towards himself) much more, out of a desire for power. And with me, it's the exact opposite in fact. I certainly don't want power: the only thing that counts is Cyco.(Cyco - CEO)	

4.6. CONSEQUENCES: Governance Practices

The last step in the paradigm model is determining the consequences of the (inter)action strategy. The concept that has grown from the codes under this section, is 'governance practices'. We found that after the KDM perceives a governance need, this KDM decides how to deal with it by choosing an alternative to fill in this need. This choice affects the board attributes and the use of other governance mechanisms in the firm.

In table 4.12., we illustrate the category **'board attributes'**. It is composed of the codes 'board composition', 'board roles', and 'board working structures'.

From quote 12.1., it can be derived that the KDM decided to use a third external board member to fill in the need for knowledge on innovation. And although this member hadn't been found at the moment of the interviews, the quote illustrates that the decision of the KDM how to deal with a governance need, would have affected the board composition in his firm if he would have found someone. Quote 12.2. shows that the KDM is changing his board composition consciously as a reflection of a change in needs. In quote 12.3. it can be read that the family owner and the VC-company of Velo (who form together the KDM of the company) agreed to change the chairman of the board. This is another example of how the board composition is altered because of the KDM's decision to deal with a governance need.

The quotes building the code 'board roles' can be found under 12.4-6. They illustrate how the board is being involved in roles like output control, advising the management and providing networks as a result of the KDM deciding to use the board for the fulfillment of these needs.

Table 4.12.: Data supporting the category 'board attributes'

12.1.We were looking for a third person. Especially to help us with the innovation aspect. And there we consulted that database of (name platform for family firms). (Name chair platform) made a selection on it, we created around 10 names from it, and then I contacted a few names. And then we were very close with (name candidate) in fact to make him director or advisor, but then he got into a whole different situation with (name company) and a new shareholder which could create conflicting interests towards Elpa. And so we didn't find a third director. (Elpa - KDM)	BOARD COMPOSITION
12.2.I change now and then the externals in the BoA since the dynamics in your organisation change, but also the needs (Elpa - KDM)	
12.3.Then (name VC-company) asked if I would mind not being the chairman of the board anymore. I said I have no problem at all with that. Just to avoid conflicts because, well, we didn't know each other. And then (name EBM) became chairman. He comes from a bank, and so we appointed him as chairman. And he proposes the agenda and is chair of the meeting, and that goes really well. (Velo - family owner)	
12.4.There are a lot of indicators, KPIs, they are completely there. One can follow very good on that basis. They have a good financial reporting as well: one can get most elements of out it. So that happens, and then, based on that, it's discussed. And for other considerations (name KDM) sends a short report about what happened, so you're aware of the issues with possibly even his reflections on it and then the question to discuss it together. (Elpa - EBM)	BOARD ROLES
12.5.At some stage I say, the price we're doing it for is not working for us, we don't gain from it. So we say, ok, how do we handle this then: purchase. Well, purchase is, ordering is not purchase. People haven't heard about it, what is purchase. Purchase you do once a year, and then you take your five head suppliers and you go negotiate with them and say: this are the prices. And then you agree upon certain leverages of which you say, the wages we do like that, or we do this in materials, and then you still can determine where etcetera. And that was so pathetic there, so at a certain moment for example I say: let's have a look somewhere else. And then, through the internet, we came out in Dubai. So we went there, and we're talking about several percentages with two digits, so that was quite something. (Velo – EBM)	

12.6.In some cases when he wants to make commercial deals with bigger companies and he wants an introduction there, then he knows them himself. In other cases he directed to me and then I said: call that person, or I can talk about it myself. (Elpa - EBM)	
12.7.Something we also learned from code Buysse, is to work with a fixed agenda for the BoA. (Elpa - son 3)	BOARD WORKING STRUCTURES
12.8.But we're still working on that ourselves, that's the evaluation of the directors. External directors, but also family directors, so all the directors in the BoA. That the other members give their opinion about somebody else. Is there something that provoked that decision? It says in code Buysse that one should do it. (Elpa - son 3)	
12.9.For me it was a good commitment, a discipline for myself to keep that board meeting monthly. The managers had to produce figures monthly. So at the same time it was a good overview for me, so I thought that was a good thing. I have to say, afterwards I didn't have any objections for it: it gave me a safer feeling in the sense that figures were really coming forward, so not only discussed quickly in between. Because before, it wasn't a regular BoD, but the figures and liquidityplans were all looked at, but it wasn't on a regular basis, it happened in between. And now, if it's once a month, then it's all being summarized, recapitulated, and it was the first time that happened and I thought it was quite an evolution . It was also a relieve in that we have more insights into what happened: not here a piece and tomorrow another; you always have an overview of the complete picture. And I know, once a month, if it's like that, you have a better overview. (Velo - family owner)	

‘board working structures’ is the last code that has been classified as ‘board attributes’. In quotes 12.7. and 12.8., one of the sons in Elpa explains how they started to work with a fixed agenda for their BoA, and now are thinking about implementing director evaluation. So these quotes illustrate how the normative force of code Buysse influences how the firm works with its BoA, which thus affects its working structures. The family owner of Velo explains in quote 12.9. how board meetings are being held monthly. When he refers to ‘before’, he refers to the period before a governmental investor joined. So when the governmental investor got involved in the company, he demanded systematic provision of figures. The KDM wanted to keep this investor happy and therefore perceived it as a governance need. Then the KDM decided to fill in this governance need by altering the working structure of the board.

Table 4.13. illustrates the category **‘use of alternative governance mechanisms’**. Quotes 13.1.-3. refer to the use of formal governance mechanisms, other than a board, to fill in governance needs in the company. The examples refer to the use of a consultant, succession planning and a family charter. Examples of informal governance mechanisms retrieved from the data are friends, family control and trust (quotes 13.4.-6.). As mentioned in the literature review, governance mechanisms can refer mainly to the family system, mainly to the business system, or to the interaction between the two. The mechanism used will depend on the governance need. For example, quote 13.1. refers to a consultant guiding the strategy development. This is thus an example of a governance mechanism filling in a governance need related to the business system. Quote 13.2. refers to a proper succession planning. Normally, succession planning is a mechanism referring in the first place to the family system, but in this case, it is the investor demanding it to ascertain the future of the company, and therefore we argue it is a governance mechanism dealing with the intersection of the business and family system. Quote 13.6. refers to the trust between a father and his son, acting as a governance mechanism that prevents family conflicts. This mechanism refers mainly to the family system.

Important to note here, is that these governance mechanisms may exist beside an active board. Like e.g. in quote 13.3. one of the sons in Elpa indicates the use of a family forum, although they do have an active BoA. So because the dad, the KDM, said that there was a need for the children to know something about the company, this family forum in the end has been implemented to fill in this need. This very same need was also being fulfilled by using the board as a vehicle for involving the children. So the alternative governance mechanism and the active BoA are complementary with respect to this governance need. These governance mechanisms however may also substitute for an active board. In quote 13.6. e.g. the son in Tecco claims that the informal governance mechanism 'trust' is substituting for formal governance.

Another remark that must be made here, is that it can be argued that once a governance mechanism is present in the private family SME, it may also create certain governance needs itself. For example, the quote below illustrates how the VC-company in Cyco causes the need for planning the succession.

CEO: *"our investor wanted clarity about the succession, which is only normal, and then he sais we have to surround ourselves with strong people."*

So this quotes illustrate how the investor present, exerts pressure that leads to a governance need. It can also be argued, that a governance mechanism may help in making the KDM aware of certain needs. Like for example in Elte, the accountant points to the need for arranging the fiscal aspect of succession:

ACC*: "the succession-inheritance issue; that should be covered. () That is something that I talked to him about several times."*

However, it may also be argued that these governance practices at those moments, do not function as a governance mechanism, but as a contingency or an institutional force. For example, the VC-investor that exerts certain pressure, acts as a contingency at that moment, and not as a mechanism that is fulfilling a need. And the accountant in Elte that points to the need for arranging the fiscal aspect of succession, can be seen as an institutional force since it seems very likely that the KDM listens to his advice, because of the accountant's experience in other companies. So at the moment he is making the KDM aware of that need, he is not fulfilling a need, and therefore not functioning as a governance mechanism.

Table 4.13.: Data supporting the category 'use of alternative governance mechanisms'

13.1.Once I isolated myself together with my steering team, and we thought about the strategy, under the guidance of a consultant. (Elte - KDM)	FORMAL MECHANISMS
13.2.But I then had an investor which had 25% of the shares, and they wanted explicitness on the succession and things like that, which is quite normal. (Cyco - CEO)	
13.3.Preparing the succession, the family charter, that has grown from the fact that dad said, well, since the children will inheret the family firm, they will have to know something about it. So we take them to the (name platform for family firms), we go to that session, we go to that session. (Elpa - son 1)	
13.4.I still have my ways. I still have friends within the accountants, a lot of friends within lawyers. From there, I get a mass of information. For accountancy that's almost weekly, and for legal issues I would say: once a month, a month and a half, that I have a short rendez-vous with those people to say: that's where I stand, what do you know about it, and what do you know about it. (Health - CEO)	INFORMAL MECHANISMS
13.5.There's no system behind it. But here it's no option to put money into your own pocket, because the others will know eventually. (Health – future CEO)	
13.6.About corporate governance, I think that differs from family to family. But since we are only here with two persons, and we trust each other pretty good, so at this moment that's not necessary yet. (Tecco - son)	

CHAPTER 5: DISCUSSION AND CONCLUSIONS

5.1. Introduction

In chapter 4 we presented our findings by illustrating the development of the different concepts from contingencies to the governance practices in private family SMEs. In this chapter, propositions about the relationships between these concepts are developed, based on our data. These propositions then are discussed and compared to existing literature and visualized in a conceptual framework.

5.2. The mediated relationship between a mix of contingencies and the governance practices in private family SMEs

5.2.1. Proposition development

First of all, we found that a mix of contingencies creates the governance needs in private family SMEs. It refers to a mix between and/or among family aspects, KDM characteristics and the business situation (see section 4.1.). So the relationship between contingencies and governance needs is not a one-on-one relationship since often these governance needs come to exist because of a mix of contingencies. We illustrated that a contingency that leads to a governance need in one firm, not necessarily leads to that same need in another firm, because they have to be looked at together with other contingencies present. This is an important finding, since it suggests that looking into the effect of only one or a few contingencies -as currently is often done- may be ineffective.

Further, our data suggest that there is a person, or a group of persons, that subsequently decides how these governance needs are being dealt with. We conceptualized this person or group of persons as the KDM. We also illustrated that the decision about how to deal with governance needs comprises the KDM looking for information on the one hand and choosing between different types of involvement of governance mechanisms on the other. The types of involvement that we classified are consult ad hoc, discuss regularly and systematic involvement. This classification in different types of involvement is new, and it helps to explain the choice of the KDM of a certain governance mechanism in private family SMEs.

However, for this KDM to be able to deal with a need, he/she first has to perceive it. This means that he/she has to be aware of the need, and be convinced that it is a need. Therefore, we developed the concept 'governance needs perceived by the KDM'. Governance needs that are not perceived by the KDM, will not be reflected in the governance practices of the private family SME.

Another finding is that the decision of the KDM subsequently determines the shape of the governance practices in the private family SME. These governance practices can be the use of a board or alternative governance mechanisms. The use of a board often refers to having it perform a certain role, but it also may refer to a change in other board characteristics like board composition or board working structures. We found that alternative governance mechanisms and a board, even an active board, often exist next to each other in a private family SME. They may complement each other, but also substitute for each other. This finding stresses the prevalence and importance of alternative governance mechanisms in private family SMEs.

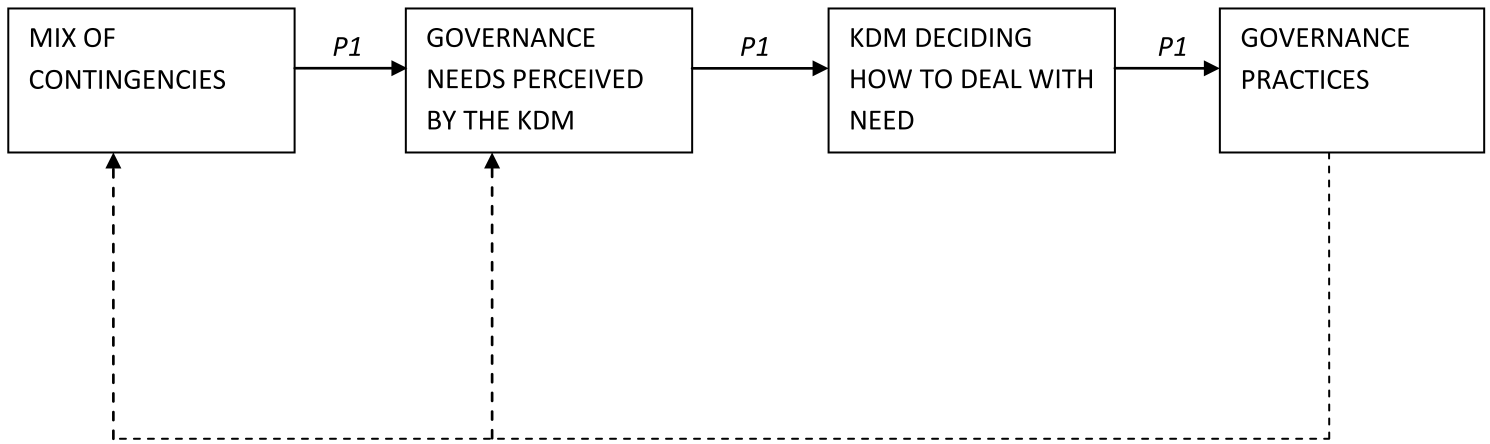
From the above, it becomes clear how we found that the link between contingencies and governance practices in private family SMEs is not a direct link, but is separated by the KDM perception of governance needs and the KDM decision how these needs are being dealt with. Put differently, the governance practices in a private family SME reflect the governance needs that are perceived by the KDM and the way the KDM decides to handle them. This leads us to our first proposition:

Proposition 1: In private family SMEs, the link between the mix of contingencies between and/or among family aspects, key decision maker characteristics and the business situation on the one hand, and governance practices on the other hand, is mediated by the governance needs perceived by the key decision maker and the way the key decision maker decides to deal with these needs.

Visually, these subsequent relations are presented in figure 5.1.

In section 4.6. of the previous chapter, we also indicated that it can be argued that the governance practices present in the private family SME, may lead to some governance needs themselves, or help making the KDM aware of these needs. However, our definition of governance practices is : *"the shape and use of governance mechanisms that fulfil the perceived governance needs".* So it may also be argued that those governance mechanisms are not functioning in the capacity of a governance mechanism at the moment they are leading to a governance need, or making the KDM aware of a need. To take into account this relationship, we integrated it in figure 5.1., but because of its somewhat ambiguous character, we didn't incorporate it in our proposition formulation, and presented it as a dotted line.

Figure 5.1.: Relation between contingencies and governance practices in private family SMEs



5.2.2. Findings versus existing literature

In our literature review, we indicated that a substantial part of governance literature focuses on boards in which some attention has been given to the contingencies of certain board attributes. This resulted in research about the relationship between certain contingencies on the one hand and certain board features like board composition or board roles, on the other. However, these studies often showed inconsistent results (Fiegener, 2005). More recently, Bammens et al. (2008) found that the relationship between a certain contingency and a certain board characteristic is mediated by the board task needs. They found that the relationship between the generational phase of the family firm and the inclusion of outside members on the board is fully mediated by the board task needs for advice.

Our findings provide further evidence that the relationship between contingencies and board attributes is not a direct one, and that the governance needs of the company play a crucial role in explaining this mediated relation. However, our research also provides insights into *why* this relationship is mediated by needs: because it is often a mix of contingencies that creates the needs, and not individual contingencies. So the link between contingencies and governance needs is not a one-on-one relationship. We illustrated how a contingency that leads to a governance need in one firm, not necessarily leads to the same governance need in another firm because of a different mix with other contingencies. This implies that to be able to explain the governance practices in private family SMEs, all contingencies at play should be taken into consideration. Since this will be very hard to do, and since this mix probably will be different for almost every individual firm, this finding thus provides additional motivation to focus more on the needs of firms instead of on separate contingencies, when trying to explain or prescribe certain board structures. But as we will illustrate further, we also argue that this focus on needs will not be sufficient.

Further, we found that it is not the mere existence of governance needs that is mediating the relationship between contingencies and board attributes. We found that the KDM has to perceive the need, since it is the KDM that decides whether the board or other governance mechanisms will be used to fill in these needs. So the KDM needs to be aware of the need, and agree it is a need, before anything in the private family SME will happen to deal with the need. This implies that there may be needs that are not perceived by the KDM. Our findings suggest that these needs will not be reflected in the board attributes (or any other governance practices) in that firm. This finding may contribute to the explanation of the perceived gap between governance needs and practices in private family SMEs. From practice it is found that many family SMEs have paper or rubber stamp boards. And yet, it is argued, these firms are confronted with a lot of governance needs. Therefore, researchers perceive a gap between the governance needs and practices of these firms (Fiegener, 2005). Our findings thus suggest that there may indeed be needs that are not reflected in the governance practices of private family SMEs; the needs that are not perceived by the KDM.

This is an interesting finding since in current board literature, increasing attention is being given to the importance of the governance needs of the company as we mentioned already. It is suggested that board task needs are an important concept and should be taken into consideration (Huse, 2005). Corbetta and Salvato (2004) argue that prescriptions and descriptions for board composition in family firms should be based on the governance needs of the firm. And Grundei and Talaulicar (2002) do suggest that board composition in firms should reflect the governance, resource, advice and information needs of the firm. But although current literature increasingly acknowledges the importance of needs in prescribing and explaining governance practices, the fact that these needs also have to be perceived by the KDM of the firm is seldom recognized. In our literature review, we only found Nash (1988) indicating that small companies often state "We don't *feel* we need that advice" as reason for not using outside directors. And Van den Heuvel et al. (2006) studied the CEO's perception of the importance of board roles. This can be seen as a related concept, since it can be argued that the CEO's perception of the importance of a board role refers to the contribution of this role to the family firm and thus the need for it. They found that CEOs of family SMEs perceive the service role as more important than the control role. But that study thus provides empirical data on board roles, whereas we focus on governance practices in general. We also provide the insight that the need has to be perceived by the KDM and *how* this perception shapes the governance practices in private family SMEs.

This focus on governance practices in general also implies that our concept 'governance needs' refers to needs in relation to governance in general, and not only board task needs. Because board literature is dominating the governance literature, the concept 'governance needs' is often used as a synonym for board task needs (e.g. Corbetta and Salvato, 2004, Grundei and Talaulicar, 2002) hereby referring to needs in relation to the BoD. But our findings suggest that the mediation of the relationship between contingencies and governance practices in private family SMEs not only refers to boards as a governance practice, but may refer to several alternative governance mechanisms as well. In other words, not only boards, but all the governance practices of private family SMEs are not directly related to internal or external contingencies, but are a reflection of the governance needs resulting from these contingencies.

The concept 'governance needs' is also in line with the tendency in current literature towards a multitheoretic approach. We defined 'governance needs' as "the many mechanisms and structures that might reasonable enhance organizational functioning". The different governance tasks that can be distilled from the different theoretical perspectives (like agency theory, resource dependence theory, stewardship theory) can all contribute to the enhancement of the organizational functioning. Therefore our concept 'governance needs' integrates needs that might be related to all these different perspectives, depending on the contingencies creating the need.

But our findings go further: even the link between perceived governance needs and board features or the use of other governance mechanisms is not a direct one. We found that, once a need is perceived, the KDM decides how this need will be dealt with. Since we defined governance needs as the needs the KDM cannot deal with himself, this implies involving other persons or systems to deal with the need. As illustrated in our findings chapter, this choice is about what type of involvement the KDM chooses: consult ad hoc, discuss regularly, or involve systematically. Who this KDM is, depends on the ownership structure of the private family SME. As indicated in previous chapters, family firms can be defined in different ways depending on ownership, management or both. Since we shaped our context by defining family firms very broadly in terms of one family owning at least 51% of the shares, we were able to compare different ownership and management structures where some companies were fully family owned and managed and others were VC-backed, of one with and one without an external CEO. We found in the cases where the CEO is the major owner, that this KDM is the CEO-owner. If the shares are equally divided among family members, the KDM may be several individuals. In the two cases where a VC-company is involved however, we found that the KDM is the board, including the major owner. These board members mostly decide in consensus, unless it concerns a specific topic in which a certain member has relevant expertise; then this member is the most decisive.

In existing literature, it is acknowledged that the majority of family businesses depend on a single decision-maker of which it is stated that this is mostly the owner-manager (Daily and Dollinger, 1992; Harris et al. 1994; Feltham et al. 2005). And Van den Heuvel et al. (2006) also refer to the fact that the CEO "is the person who has the power to stimulate the functioning of his/her BoD, or to make it a rubber stamp board" (Van den Heuvel et al., 2006, p. 475). So they acknowledge the importance of the perception of the CEO because of the fact that he/she is making the decisions about the roles that their boards will perform. Our findings suggest that private family SMEs depend on a key decision-maker, which is not always an individual but may be more than one person, and in case of a VC-company present, it even is the board. So we argue that it is not necessarily a single decision-maker, and we illustrated how not only the board roles, but the governance practices in general are affected by the decision of the KDM.

Our argument that governance needs have to be perceived by the KDM before governance actions are taken, comprises certain dangers for private family SMEs in which this KDM is one person. Alderfer (1988) e.g. noted that 'leaders are often not as able to perceive the limitations of their behavior as the people who are regularly subject to the consequences of their actions'.

And Poza et al. (1997, 2004) indicate that CEOs tend to have the most rosiest picture of the business and the family which may prevent the company from detecting problems. So making the KDM aware of the needs of the company, is crucial for effectively influencing the governance practices of a private family SME.

The last part of our first proposition refers to the finding that the decision of the KDM how to deal with the governance needs, leads to the governance practices present in the private family SME. This refers to governance mechanisms satisfying the needs. We found that these governance mechanisms can refer to a board (which may be a formal BoD or an informal BoA), but also to many other governance mechanisms like auditors, accountants, consultants, corporate structures or processes like communication or social control. These findings suggest that a board may fulfill certain governance needs, but other governance mechanisms may fulfill them as well. Therefore, these findings not only suggest that other governance mechanisms than the board play a very important role in the governance of private family SMEs, they also suggest that they can complement and substitute for different board roles: service and control. So this substitution effect by alternative governance mechanisms cause that sometimes, there is no need left for a board. This is why we conceptualized them as 'alternative governance mechanisms'.

This is in line with the small amount of literature suggesting that other governance mechanisms may replace a board in private family SMEs. Steier (2001, 2003) argues trust may substitute for formal governance mechanisms since it reduces monitoring costs and provides precaution to opportunistic behavior. Jonovic (1989) suggests that a review council could be a good alternative for an external board to review family business decisions and directions. Randoy and Goel (2003) state that founding family SMEs that use family control as a substitute governance mechanism, are better performing. Lambrecht and Lievens (2008) argue that pruning the family tree is an alternative governance method for handling family complexity. And Pieper et al. (2008) found that social control mechanisms (like goal alignment) substitute for formal ones (like boards) and refers to the substitution effect as also investigated by Rediker and Seth (1995). Our findings thus provide additional support for the substitution effect between a board and alternative governance mechanisms. But more importantly, we provide insights into how the choice between these alternatives is made: by experiencing a need in the first place, but also by subsequently deciding which level of involvement of the governance solution is desirable.

This substitution effect can also partially (besides the necessary perception of the needs as mentioned earlier) explain the governance needs versus governance practices discrepancy, because this discrepancy is mainly perceived by researchers focusing only on the BoD as a governance mechanism. Since alternative governance mechanisms can complement, but also substitute for a board -at least to some extent- the discrepancy perceived by researchers focusing only on boards, may not be a discrepancy in reality.

This substitution effect may also help explaining part of the perceived resistance of family firms against empowered boards. If the KDM of the firm does not perceive the need for an empowered board, or decides to use alternative governance mechanisms to fill in a perceived need, it seems logical that this KDM will not be inclined to install and/or empower a board. This thus provides an alternative explanation for the resistance of family firms against empowered boards.

5.3. Intervening Institutional Forces

5.3.1. Proposition development

Besides the relationships we described in proposition 1, we also found some intervening conditions.

From analyzing the data, we could distill that institutional forces play an important role in shaping the governance of private family SMEs. We found that organizational associations and certain courses sometimes acted as a mimetic force, whereas the national corporate governance code and the family sometimes acted as a normative force. So we found two types of sources of both normative and mimetic forces.

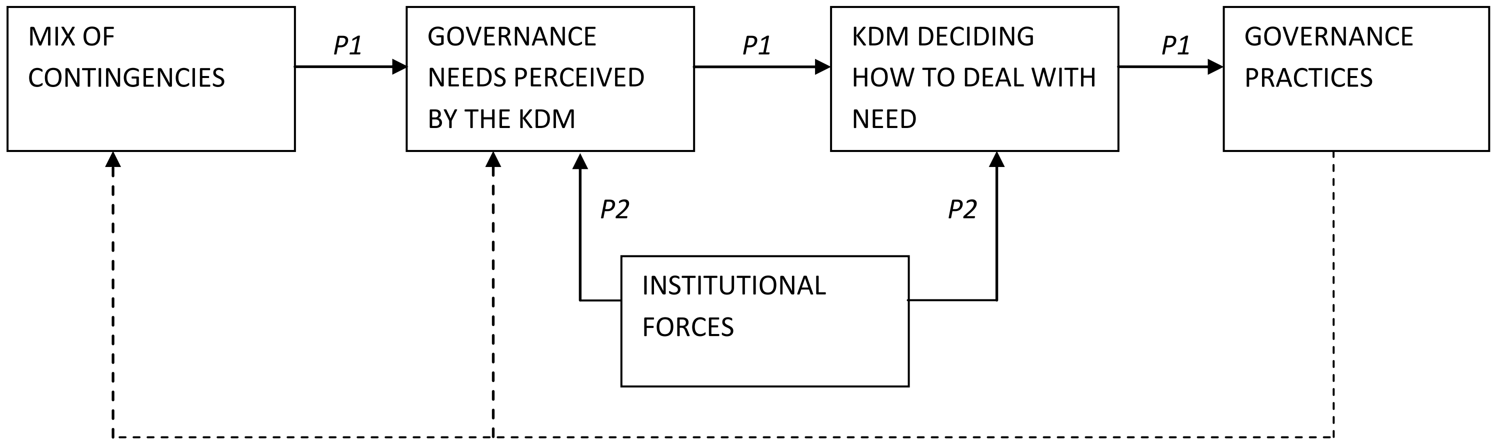
First of all, we found institutional forces influencing the perception of the needs by the KDM. We found how normative and mimetic forces can help to make a KDM of a private family SME aware of certain governance needs in his/her company. In case of mimetic forces, the KDM of the private family SME becomes aware that certain governance practices are needed because it has proven successful in other organizations. In case of the normative forces, the KDM of the private family SME experiences some pressure, based on values and norms, that certain governance actions need to be taken because he/she desires to behave appropriately in terms of social interaction.

Second, we found that these institutional forces influence the decision of the KDM about how to deal with the perceived needs. Our findings indicate that the choice of the KDM between several governance mechanisms, is influenced by normative and mimetic forces. Within this respect, normative forces indicate that certain practices should be implemented when a certain need is experienced, and/or how they should be used, based on certain values and norms. Mimetic forces are at play when the KDM of the private family SME decides to handle a governance need in a certain way, based on the fact that this solution has been successful in other organizations with a comparable need.

Based on these findings, proposition 2 is presented:

Proposition 2: Institutional forces influence the perception of governance needs by the key decision maker and the way how the key decision maker decides to deal with the perceived governance needs.

Figure 5.2.: Intervening Institutional Forces



5.3.2. Findings versus existing literature

Since it is not captured in our literature review, first a short overview of institutional theory will be given. Institutional theory is about institutions and institutionalization. An *institution* can be defined as a collection of cognitive, normative and regulative structures and activities that all provide stability and meaning to social behaviour (Scott, 2002). *Institutionalization* is mostly seen as a process.

One of the earliest works of institutionalization in organisations is that of Selznick (1957). He defined institutionalization as the infusion with value, giving intrinsic worth to structures and processes (Scott, 1987). Later versions of institutional theory are based on the work of Berger (Berger and Luckmann, 1967) who defines institutionalization as "the process by which actions become repeated over time and are assigned similar meanings by self and others" (Scott, 1987,p. 495). Later, the focus shifted from institutionalization as a distinctive process of infusing with value or taking for granted, towards institutionalization being part of a distinct set of elements. Here it is acknowledged that institutionalized belief systems can influence organizational structure. Cultural elements like symbols, cognitive systems and normative beliefs, and the sources of these elements, play a vital role (Scott, 1987). If organizations want to receive support and legitimacy, they will have to conform to the rules and requirements which are provided by the institutional environment (Scott and Meyer, 1983). It is argued that organizations conform to institutionalized beliefs because there is a reward (like resources, legitimacy, survival) attached to it, and not because they are taken for granted (Scott, 1987). The publications of Scott (1995) and Di Maggio and Powel (1983) classify different types of processes that might cause organizations to change, and more specifically to isomorphism across organizations. These publications can be integrated into the following three institutional forces:

Regulative (Scott, 1995) **or coercive** (DiMaggio and Powel, 1983) *forces* refer to the fact that the choices organizational actors make are to further their own best interest by maximizing rewards and minimizing adverse outcomes. Regulative structures and activities outside the business impose certain boundaries on the organization and its members. Government can provide an additional general coercive influence by editing laws and regulations.

Normative forces (Scott, 1995; DiMaggio and Powel, 1983) arise from values and norms. The goal is to behave appropriately in terms of social interaction. It can originate from both inside and outside the company. Social networks, industry or professional organizations, government unions, customers can all exert implicit normative forces on the business. Implicit stakeholder norms and values are related to this issue as well because their support may be needed somewhere in the future.

Cognitive (Scott, 1995) **or mimetic** (DiMaggio and Powel, 1983) *forces* refer to mimetic behaviour to reduce uncertainty. Scott (1995) explains this by stating that this mimetic behaviour reduces anxiety about standing out as different from the rest of the crowd and as an attempt to achieve security by copying those organizations that are considered to be following the best practices. It is also a quest for enhanced legitimacy (Selznick, 1996).This clearly illustrates that there is not one institutional environment, but there are multiple (like e.g. public opinion, courts, professions, ideologies.) (Scott, 1987).

The above mentioned institutional process of influence may take place on the individual, organizational, and inter-organizational level. At the individual level, the norms, habits and traditions of managers are institutionalized activities (Berger and Luckmann, 1967). The shared belief systems and corporate culture in an organization represent institutionalized structures and behaviors at the firm level (Oliver, 1997). At the inter-organizational level, government pressures, industry alliances and societal expectations represent a common social pressure towards similar structures and activities for firms in the same sector. (DiMaggio and Powell, 1983). At this level, pressure may also come from professional associations and organizational networks (Greenwood et al., 2002; Powell and Colyvas, 2008).

The above described institutional theory has already been integrated in governance literature. Judge and Zeithaml (1992) argue that institutional theory offers unique explanations and predictions for board behavior. This refers to institutional influences at the inter-organizational level. Based on relationships they found between certain antecedents and board strategic involvement, they suggest that "the institutional perspective appears to offer a partial, but informative, explanation of board involvement in the strategic decision process" (Judge and Zeithaml, 1992, p. 784). With reference to the *family* firm, some authors found that institutional theory also can be used to understand the reason for introduction or change of governance practices and how this precisely happens in this context. Ocasio (1999) found that institutional effects influence board decisions regarding the CEO succession through rules and routines. And it is acknowledged that family firms are also influenced by social rules and norms and adapt taken-for-granted behaviors: their governance practices are shaped and legitimized by institutional pressures (Nordqvist and Melin, 2002). Yildirim-Öktem et al. (2010) found that institutional pressure and power perspectives better predict board professionalization in family business groups than internal and external complexity the firm is faced with. Others found how voluntarily professional associations exert mimetic and normative forces in changing the values of family firms by means of an institutional champion, where values are considered as a governance practice (Parada et al., 2010).

Our findings provide insights into how mimetic and normative forces affect the board features and use of other governance mechanisms in private family SMEs. We found that these institutional forces may come from organizational associations, courses, corporate governance codes and the family. We illustrated how these institutional forces can influence the perception of governance needs by the KDM and the decision of the KDM how a perceived need is being dealt with. Because of this influence on the KDM decision, these institutional forces might have an important impact on the governance practices of this type of firms. But our data also suggest that this influence can only happen though, for as far as the KDM lets this force influence his/her decision, and as far as the KDM perceives a need for whatever the institutional force is 'suggesting'. Comparing with existing literature, we thus deliver new insights into how the board features, and governance practices in general, in private family SMEs are shaped by a combination of needs and institutional forces. This is in line with institutional theorists claiming that some organizations resist or avoid to conform to external pressures. It contrasts with that literature though by arguing where this resistance comes from. In that literature, it is stated that this resistance of certain firms comes from the founding conditions and the firms' history. This means that practices of firms come from the practices that were common at the time of their foundation, and that these practices will keep an important influence of the rest of the organization's life (Stinchcombe, 1965). Based on our findings, we argue that resistance of private family SMEs against certain institutional forces, in certain situations will come from the fact that there is no perceived need for what the institutional force is imposing.

Except for the study of Parada et al. (2010), no previous research has looked into the normative pressures of voluntary associations and their impact on an individual family firm. It is one of the few studies using institutional theory in explaining family business behavior (Parada et al., 2010). Our study therefore contributes to family business research by delivering additional insights into these pressures on an individual family firm.

5.4. Intervening KDM independence index

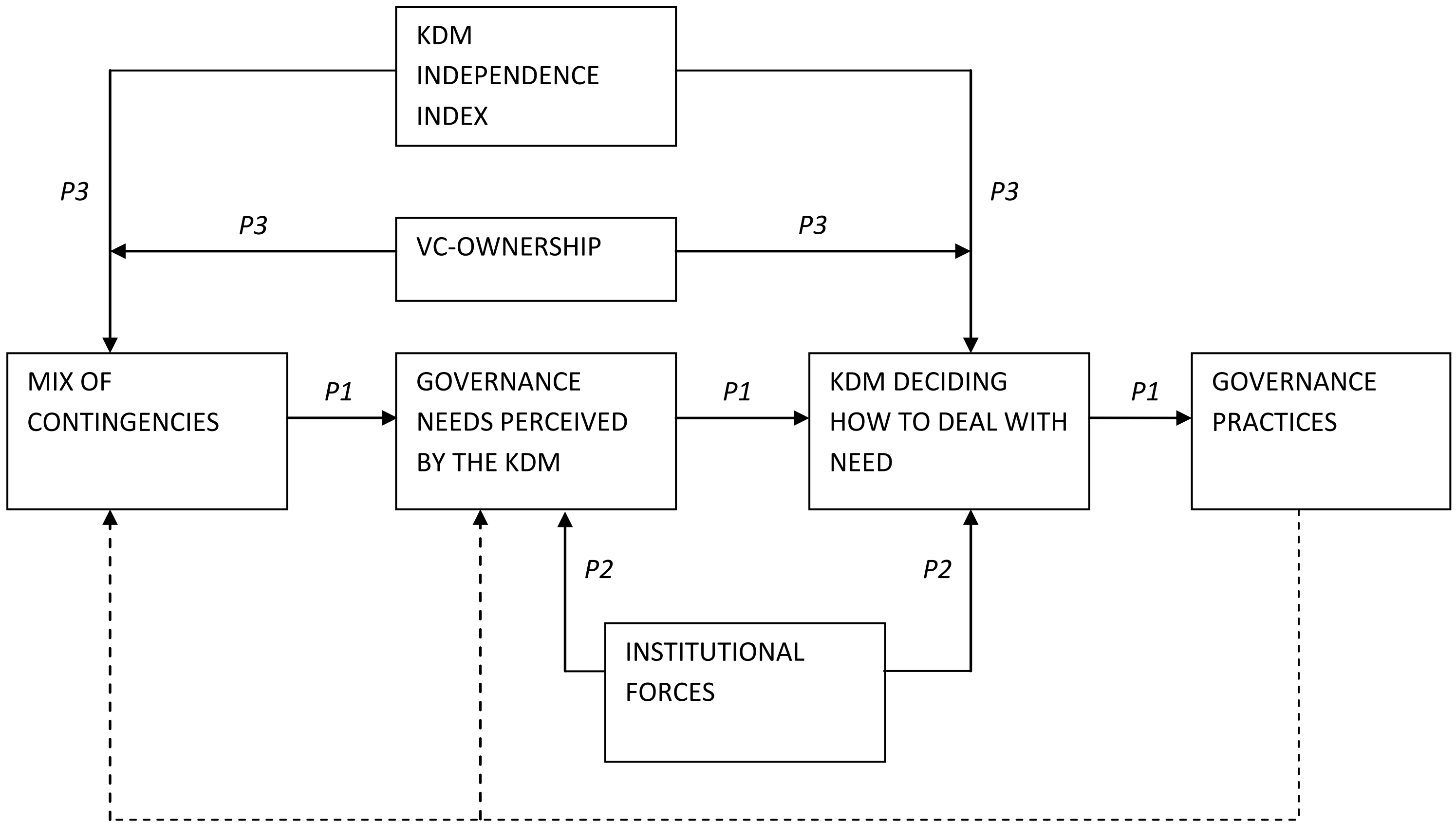
5.4.1. Proposition development

Lastly, our findings suggest that the KDM independence index is crucial in explaining the governance practices in private family SMEs. The KDM independence index refers to the learning frame and the level of noneconomic goals of the KDM. Here we have to make a distinction however between the private family SMEs that are VC-backed, and those that are not. Our findings suggest that in private family SMEs that are not VC-backed, the KDM independence index influences the way the KDM decides to deal with the perceived governance needs. In our findings chapter, we illustrated how KDMs with a high independence index preferred more ad hoc interventions versus systematic involvement. We even found indications of the fact that this independence index influenced the prevalence of certain contingencies. These relationships however, do not hold for private family SMEs in which a VC investor is present. Here, the KDM is several individuals, of which some are nonfamily. These nonfamily shareholders do not have those noneconomic goals towards the family firm as the family owners.

This leads us to the third proposition:

Proposition 3: The key decision maker independence index influences the presence of certain contingencies and the way how the key decision maker decides to deal with the perceived governance needs, in private family SMEs that are not VC-backed.

Figure 5.3.: Intervening KDM independence index



5.4.2. Findings versus existing literature

The KDM independence index integrates the learning frame and the level of noneconomic goals. We will first shortly cite the literature on these topics.

Learning frame

Learning is induced by factors on the organizational, group, and individual levels (Dodgson, 1993; Huber, 1991; Levitt and March, 1988). Argyris and Schon (1996) however state that the thinking and acting of individuals influence learning at the organizational level and therefore state that individuals are of central importance to organizational learning. They developed the concepts 'Model I' and 'Model II' frames which refer to behaviors which can be essential to learning. The Model I or protective frame involves disinterest in others' views, making untested assumptions about the motivations and positions of other people, and leave no opportunity to test people's advocacies. It refers to behaviors that are counterproductive to learning (Foldy, 2004). Model II or the reflective model enhances learning. Here, suggestions are made to test one's advocacies and the view of others is inquired. Argyris and Schön (1996) used these concepts in relation to organizational learning.

Based on this work of Argyris and Schön (1996), the concept of 'learning frame' was developed. A learning frame refers to a person's attitude toward new information. How persons approach a viewpoint that is different from their own illustrates which learning frame they tend to (Foldy et al., 2009). Foldy et al. (2004, 2009) applied them to the individual level. They refer to 'low learning frames' and 'high learning frames'. The low-learning frame is based on the Model I of Argyris and Schön (1996) and refers to individual behavior that avoids criticism and is not interested in new information (Foldy et al., 2009). The high-learning frame is based on the Model II (Argyris and Schön, 1996) and refers to individuals that are curious about others' views and interested in contributing to discussion (Foldy et al., 2009). In contrast to the organizational level use of these concepts by Argyris and Schön (1996), learning frames are mostly approached as an individual-level construct (Edmonson & Moingeon, 1998). Although individuals carry their learning frame to their different life situations (Senge, 1990), social and organizational contexts may influence these learning frames (Schön, 1983).

Noneconomic goals

In our literature review, we already highlighted the fact that family firms tend to have noneconomic or nonfinancial goals on top of the traditional economic goals (Mustakallio et al., 2002, Steier, 2003; Steier et al., 2004, Sharma, 2004, Voordeckers et al., 2007). Some authors argue that these noneconomic goals may even be more important to the family business, than the traditional business objectives (Sirmon and Hitt, 2003; Upton et al., 2001; Sharma et al., 1997; Westhead et al., 1997; Chen and Hsu, 2009; Fiegener et al., 2000). The fact that family firms have these noneconomic goals, may create needs that are idiosyncratic for family firms. Gomez-Mejia et al. (2007) conclude that a lot of the behavior of family firms can be explained by their need to protect their socioemotional endowment. Socioemotional wealth (SEW) or endowment refers to aspects of the family firm that meet the affective needs of the family like for example the need to exercise authority or the need for belonging (Gomez-Mejia et al., 2007). The argument that the behavior of family firms can be explained by their SEW protection, is based on behavioral agency theory.

Behavioral agency theory combines elements of agency theory, behavioral theory of the firm, and prospect theory for explaining risk taking behavior. Agency theory assumes decision makers have stable risk preferences. Based on this theory, it is argued that principals are risk neutral (because they can diversify their risks in their portfolio) and agents are risk averse (because of employment security). Based on this reasoning, it is argued that family firms are more risk averse than nonfamily firms because in family firms the principals' wealth is tied closely to the firms' wealth.

In 1998 however, Wiseman and Gomez-Mejia developed a behavioral agency model of executive risk taking, that combines elements of the three aforementioned theories. Based on this behavioral theory approach, they argue that the risk taking behavior of an individual is not stable, but changes with the framing of problems, and that executive decision making can be understood from a loss-aversion behavior. They argue that problems can be positively framed (having to choose among gains) or negatively framed (having to choose among losses), and based on an aversion towards losses, decision makers will be risk-averse in case of positively framed problems, but risk-seeking towards negatively framed problems. The framing of problems happens by comparing anticipated outcomes of different options, against a reference point (Wiseman et al., 1998).

Gomez-Mejia et al. (2007) apply this behavioral agency model to family firms, and state that the primary reference point in family firms, is the loss of their socio-emotional wealth. They argue that the loss-averse behavior towards this socio-emotional wealth explains why family firms are willing to accept a significant risk to their performance, but at the same time avoid risky business decisions that might magnify that risk. So family firms can be risk averse and risk willing at the same time, but the loss-averseness towards their SEW dominates on their averseness towards financial risks.

In sum, SEW is a theoretical formulation, based on which the family business domain can be distinguished. It provides a frame of reference for major strategic choices and policy decisions in family firms. At first, literature assumed that SEW was homogeneous across family firms, but gradually, researchers are acknowledging that SEW may differ across different family businesses (Berrone et al., 2012). For example, performance, economic conditions (Berrone et al., 2012), the generation owning and managing the firm (Gomez-Meija et al., 2007) are factors that could influence the focus of the family firm on SEW. Especially in private family firms, where the family owns between 50 and 100% of the shares, SEW concerns will be more evident (Berrone et al., 2012).

Discussion

Our findings suggest that in private family SMEs that are not VC-backed, a combination of the learning frame and the level of noneconomic goals of the KDM influence the way the KDM deals with governance needs, and sometimes even influences certain contingencies.

The **learning frame** refers to the stance of the KDM towards new information and viewpoints that differ from his/her own. It indicates how open the KDM is towards new information and/or different perspectives. We explained how this learning frame influenced the decision of the KDM to deal with the need. This decision comprises looking for information on the one hand, and choosing an alternative on the other. Strike (2012) reviews the literature on advising family firms. She points out that little is known about what factors encourage or discourage family firms to look for and take into account advice. She urges researchers to explore factors affecting the advice-seeking behavior of family firms. Our findings suggest that the learning frame is one of these factors that influences the KDM in private family SMEs to look for information on how to deal with governance needs. This learning frame also helps to explain why the link between perceived governance needs and the governance practices in non VC-backed private family SMEs is not a direct link. To our knowledge, the theory on the learning frame has not been integrated in governance literature, nor in family business literature. So the integration of this theory delivers fresh insights into the understanding of the governance in this type of firms.

Theory on **noneconomic goals** and preserving socio-emotional wealth is embedded in family firm governance literature as illustrated above. Our findings indicate that the level of noneconomic goals differs across different KDMs. We hereby provide additional insights into how the main priority (socioemotional endowment versus financial) differs among family firm KDMs. We hereby concede to the plea of Berrone et al. (2012) to reach beyond the oversimplification in SEW literature where family firms have been mostly treated as homogeneous in their emphasis on SEW considerations. Zellweger et al. (2012) also suggest that family firm owners may have different SEW perceptions. They argue this heterogeneity is related to target, personal and situational features. Our findings suggest that the difference in SEW considerations among family firms may be explained by different levels of noneconomic goals of the KDMs of the firms, but also by the fact whether a VC-investor becomes part of the KDM of the firm or not. This last aspect seems reasonable, since 'owners need to have enough discretion within the organization to impose their goals of SEW preservation' (Berrone et al., 2012, p. 271). If investors become part of the KDM, this discretion is obviously diminished substantially. Within this respect, Gomez-Mejia et al. (2011) proposed that the presence of other owners like institutional investors diminishes the emphasis on SEW preservation. This is in line with current literature on SEW stating that in family firms where there are nonfamily investors, the financial interests of these investors may conflict with the socio-emotional goals of the owning-family (Chrisman et al., 2004). Our findings however indicate that private family firms in which the investor was an institutional investor, the investor did not become part of the KDM, and therefore are also subject to the influence of the KDM independence index (which includes the KDM noneconomic goals). Therefore we suggest that depending on the *type* of investor, this investor becomes part of the KDM or not, which subsequently determines whether the independence index with its noneconomic component has an influence on the policy of the family firm or not.

Important to note here, is that noneconomic goals may create economic inefficiencies, but they do not necessarily always do so (Sirmon and Hitt, 2003). Our findings suggest that the noneconomic goals of the KDM in a non VC-backed private family SME, which do not contribute to the enhancement of the organizational functioning, influence the decision of the KDM how to deal with perceived governance needs; needs that are related to the enhancement of the organizational functioning (whether they are economic or noneconomic goals). So we distinguish between noneconomic goals that contribute to the organizational functioning, and noneconomic goals that do not. The first group of goals (together with the needs created by economic goals) lead to governance needs, for which the KDM of the family firm seeks a governance mechanism to fill in that need, regardless if there is a VC-investor involved or not. The second group of goals influences which *type* of governance mechanism this KDM will choose, for as far as there is no VC-investor involved. This distinction is important, because the aforementioned effect of a VC investor, only affects the noneconomic goals that are included in the independence index; those that do not contribute to the organizational functioning. So for understanding the differences across family firms in terms of their SEW preservation, a distinction between goals that contribute to the enhancement of the organizational functioning, and goals that do not, may be more relevant than the distinction between economic and noneconomic goals.

Our findings also indicate that the decision of the KDM then subsequently determines the governance practices in the firm. These findings therefore provide additional insights into how both economic and noneconomic goals in family firms shape the governance of the private family SME without a VC investor. Voordeckers et al. (2007) and Fiegener et al. (2000) found that in family firms where the socio-emotional goals are higher, there is more reluctance towards independent board structures. To this finding we add that the level of noneconomic goals not only influences the board structures, but also other board features and especially the mere existence of the board and other governance mechanisms by influencing the KDM decisions.

Together, the learning frame and the level of noneconomic goals represent the independence index in this research. In other words, the concept 'independence index' is a combination of two existing concepts, which each can vary on a scale from low to high. So theoretically, this can result in four different combinations of the two dimensions (high & high, high & low, low & low, low & high respectively). In our cases however, we only found two combinations which we labeled as high independence index and low independence index. This could indicate that these two concepts are interrelated. It indeed does not seem unreasonable to argue that a person who is more open to the advice of other people and believes they may contribute (high learning frame), is also a person that has less desire for authority, has less problems with being accountable and ceding power (low level of noneconomic goals). But since the goal of our research is to establish the factors that influence the governance of the firm, the further development of possible relationships between these two dimensions, is out of the scope of this research.

Regarding *institutional theory*, we already proposed earlier that our findings suggest that a possible resistance of family firms against institutional forces may come from the fact that the KDM does not perceive a need for what the institutional force is imposing. The independence index of the KDM provides an additional possible explanation for this phenomenon. KDMs with a different learning frame and level of noneconomic goals, may react differently to institutional forces. In other words, the independence index explains how even family firms with the same needs may respond differently to institutional forces.

The independence index may also deliver insights into another phenomenon. A lot of attention in family business literature is devoted to *board empowerment*. But knowledge of how this board empowerment in small companies is determined by critical contingencies, remains limited to date (Huse, 2000; Lynall et al., 2003), and more insights are needed into how board roles and behaviours vary across different family businesses (Bammens et al., 2011). Our findings indicate how KDMs with higher independence indexes will less frequently choose for systematic governance practices like a board, than KDMs with a lower independence index. The independence index thus provides additional insights into the contingencies that influence board empowerment, and helps to explain differences in this board empowerment across family firms. Literature has been -and still is- recommending empowered boards for private family SMEs (Ward, 1988; Hoy and Verser, 1994; Corbetta and Salvato, 2004; Gabrielsson, 2007). In practice however, it seems that many family SMEs have paper or rubber stamp boards, boards that exist just to meet the legal requirements or to formally approve what already has been decided to do (Huse, 2000; Lane et al., 2006). The independence index helps to explain the resistance of some of these firms against empowered boards, despite their governance needs, and the institutional forces they are faced with.

5.5. Overall conceptual framework

In the previous sections we developed our propositions and compared them to existing literature. By integrating the different propositions, a conceptual framework can be distilled, as visualized in figure 5.3. This framework integrates the contingency perspective, institutional theory and behavioral agency theory to deliver additional insights into the antecedents of governance in private family SMEs. The framework indicates how this multitheoretic approach is needed to understand the formation and empowerment of boards and professionalization in private family SMEs.

A substantial part of existing theory on board composition and board empowerment mainly focuses on the effect of these board features on the performance of the family firm (Yildirim-Öktem et al., 2010). The part of literature that does look at the antecedents, focuses mainly on contingencies. The most prevalent contingencies that are looked at, can be categorized under firm, ownership, CEO and family characteristics. The findings of this research however are still mixed and sometimes contradictory (Markarian et al., 2007).

Next to this search for the influence of contingencies on board features, a part of literature is starting to look at the needs of family firms to explain certain board features. Authors are starting to claim that the relationship between certain contingencies on the one hand, and certain board features on the other, is mediated by the board task needs or board task expectations (Huse 2005; Bammens et al., 2008). It is argued that board composition should reflect the governance needs of the family firm (Corbetta and Salvato, 2004; Grundei and Talaulicar, 2002). Grundei and Talaulicar (2002) even argue that in reality companies do set up boards that reflect these needs.

Our framework provides further support for this importance of needs to explain board features and governance as a whole in private family SMEs, but also suggests that this focus on needs is not sufficient. Based on our findings, we propose that governance in private family SMEs reflect the policy choices of the KDM of that firm, and this choice is determined by three factors: the governance needs perceived by the KDM, institutional forces, and the independence index of the KDM. The conceptual framework in figure 5.3. indicates how these factors complement each other in forming the policy decision of the KDM. This means that looking at contingencies only, or even at governance needs resulting from these contingencies, will not be sufficient to understand the governance practices in private family SMEs. This may explain the mixed or contradictory results of research on the effect of contingencies.

The framework also provides insights into how and why private family SMEs professionalize, and why this differs across private family SMEs. Dekker et al. (2012) distinguish between professionalization and formalization, and use these two features to develop a new typology of family firms, where they distinguish between four different types. Professionalization refers to the introduction of new elements within the firm, like a board, external managers, or councils, that were not there before. Formalization refers to the alteration of how certain things are done, like replacing on-the-job training with formal training programs, or implementing explicit control systems instead of the subjective judgment of the family owner (Dekker et al., 2012). Stewart and Hitt (2012) also develop a typology of family firms, based on their level of professionalization.

Our conceptual framework indicates that private family SMEs use informal and formal governance mechanisms, sometimes as complements, sometimes as substitutes to each other. We have shown how this mix depends on the choice of the KDM, which in turn depends on the needs this KDM perceives, and which is influenced by institutional forces and the independence index of the KDM. We hereby provide more insights into the antecedents of professionalization and formalization in private family SMEs, and why it differs across private family SMEs.

Further, it is acknowledged in literature that founders are often unwilling to install more formal routines and share decision making power. This then prevents the establishment of formal structures and systems (Gedajlovic et al., 2004). Stewart and Hitt (2012) also reflect on reasons why many family firms do not, or only partially, professionalize, despite the apparent advantages of professionalization. The reasons they posit, can be classified as family firms having less capability and/or less need to professionalize. Our framework confirms that if the KDM of the private family SME perceives no need for professionalization, it will not happen. But our findings also indicate that if there is a need, it is still possible that the professionalization will not happen. Our findings suggest that this unwillingness towards professionalization may also be explained by the independence index of the KDM, and the availability of informal governance mechanisms that may substitute for more formal governance systems. We hereby provide a deeper understanding of the potential unwillingness of private family SMEs to professionalize, and an explanation for differences among family SMEs within this regard.

In other words, the conceptual framework indicates that the contingency perspective indeed is necessary, but not sufficient for explaining governance in private family firms. Based on our findings, we recommend that this perspective should be complemented by institutional theory and behavioral agency theory to understand the governance practices in a private family SME. Therefore, this conceptual framework provides a more holistic view of the antecedents of governance in private family SMEs.

5.6. Conclusions and practical implications

5.6.1. Conclusions

The research question guiding this study is: *"What happens within the private family SME between the arising of a governance need and the implementation (or not) of a particular governance mechanism, and why?"*

To understand this social phenomenon from the inside, and gain insight in the complex social processes, we used a qualitative research approach with multiple case studies as research strategy. We gathered data by performing in-depth interviews and using secondary data sources. These data were analyzed abductively by using Grounded Theory Method according to the constructivist approach to refine existing theory. The aim was to build a mid-range theory that was grounded in empirical data. A mid-range theory is an essential theory about specific phenomena, but not about organization in any grand sense (Eisenhardt, 1989). This is based on analytic (instead of statistical) generalization where previous developed theory is used as "a template with which to compare the empirical results of the case study" (Yin, 1989, p. 38). By using abduction and constantly iterating between our findings and theory, we were able to develop a conceptual framework (figure 5.3.) that provides a mid-range theory of how the behavior within a private family SME shapes its governance practices.

This framework contributes to existing literature in several ways. First, we contribute to **institutional theory** by delivering new insights into how inter-organizational influences take place. We explain how voluntary professional organizations contribute to the shape of governance in private family SMEs through their influence on the decision of the KDM of the firm. We also contribute to the understanding why certain family firms resist against institutional forces, and why this may differ among family firms. This resistance may exist if the KDM of the firm does not perceive a need for what the institutional force is implying, or from the influence of the KDM independence index on the decision how to deal with perceived needs.

Second, we contribute to **strategy-as-practice literature**. The field of strategy-as-practice is concerned with strategy as something people in organizations do, as opposed to the dominant view on strategy as something organizations posses (Varyani et al., 2010). The field distinguishes between ”practitioners (those people who do the work of strategy); practices (the social, symbolic and material tools through which strategy work is done); and praxis (the flow of activity in which strategy is accomplished)” (Jarzabkowski et al., 2009, p. 2). Varyani et al. (2010) identify consultants and middle managers as the most important strategy practitioners. Others define them more widely and also include those who have an indirect influence on strategy, like "policy-makers, the media, the gurus and the business schools who shape legitimate praxis and practices” (Jarzabkowski and Whittington 2008, p. 101-102). Literature on strategy-as-practice has been pleading to include more external actors like consultants and institutional actors like business schools. Only a few studies have explicitly studied these extra-organizational actors and so the theoretical background and empirical evidence in this literature is limited (Jarzabowski et al., 2009). Therefore, our conceptual framework contributes to this literature by delivering additional insights into how external actors may influence the governance, and hence strategy formulation and control, in private family SMEs. Our framework suggests that institutional theory and behavioral agency theory are necessary to understand this influence, and the perceived governance needs and the independence index of the KDM of the firm determine how susceptible the firm is towards these influences.

Third, we contribute to **behavioral agency theory in family firms**. Our findings provide more insights into how SEW preservation (combined with the learning frame) influences policy decisions, and hence governance, in private family SMEs. We also deliver a more profound understanding of the differences across family firms in terms of their SEW preservation. Our findings suggest that these differences can be explained by different levels of noneconomic goals across the KDMs of the firms, or by the inclusion of a VC-investor in the KDM of the firm or not. For understanding this effect of a VC-investor that becomes part of the KDM, a distinction between noneconomic goals that contribute to the organizational functioning, and those that do not, is necessary. We hereby add to the understanding of the influence that family presence has on the governance of a private family SME.

And fourth, the framework contributes to **family business literature** in several ways. First of all, it contributes to *literature on boards* in family firms by delivering new insights in the mediated relationship between contingencies and board practices in private family SMEs. Our findings provide support for the recent tendency in current literature toward more focus on needs, but based on our findings we argue that a focus on governance needs is not enough to explain the governance practices in private family SMEs. First of all because the perception of the needs by the KDM is crucial, and second because the link between the needs and the governance practices is not a direct one either. Our findings suggest that this relationship is mediated by the decision of the KDM how to deal with the needs, and that certain processes help to explain the different choices of KDMs towards governance practices in their firms. These processes can be explained by behavioral agency theory and institutional theory. These new insights into this mediated relationship, and the inclusion of alternative governance mechanisms, thus provide a better understanding of how and why board features come to exist in private family SMEs. It explains why board composition and board roles not necessarily reflect the governance needs of private family SMEs, and why these features will differ across different family firms, even if they have the same needs and are confronted with the same institutional forces. This thus contributes to the scant literature on the antecedents of board composition, of how boards in private family SMEs get formed, by delivering fresh theoretical insights in accounting for variations in board formation. This is an important contribution, since a lot of heterogeneity of board composition remains unexplained (Boone et al., 2007; Markarian et al., 2007).

The insights also contribute to *literature on board empowerment* in family SMEs. Because of the possible value creation, a lot of research has been done to get a better insight into what precedes to a board getting empowered. In this respect, contextual factors, different board features (composition, characteristics, structure and processes), and board roles are researched. In some studies, they are treated as independent variables influencing the (financial) performance of companies. In other studies, board roles or some of the board features are the dependent variable, and other board features or contextual factors are the independent variables. But knowledge of how contingencies influence board empowerment in small companies remains limited to date (Huse, 2000; Lynall et al., 2003).

Our findings deliver additional insights in this relationship. We found that board composition, board working structures and board roles – and therefore board empowerment- in private family SMEs are determined by three factors: the governance need, the fact whether this need is perceived by the KDM, and the choice of the KDM for using the board versus alternative governance mechanisms. This choice is influenced by institutional forces and the independence index of the KDM. This means that in private family SMEs where there have not been relevant governance needs which can be fulfilled by an empowered board, there will be no empowered board. In private family firms where there are relevant governance needs, there may still not be an empowered board because of two reasons. The first reason is that the KDM may not be aware of, or agree that, there is a need. The second reason is that the need may be fulfilled by an alternative governance mechanism. This last aspect depends on the choice of the KDM, and this choice is influenced by institutional forces and the independence index of the KDM. Our findings suggest that KDMs with a higher independence index will more often choose for alternative governance mechanisms with less systematic involvement than a board. These insights help to explain the perceived discrepancy between governance needs and board empowerment in private family SMEs. Because even if the relevant needs are present, there are other factors determining whether they will be reflected in an empowered board. The insights also help to explain the perceived resistance of family firms against empowered boards, or professionalization in general. Because the independence index may cause the KDM to choose for alternative governance mechanisms which answer to their noneconomic goals more than an empowered board. Therefore, in some cases, not having an empowered board may be the optimal governance solution for certain private family SMEs. This is quite a revealing insight, since both researchers and practitioners are often prescribing empowered boards to private family SMEs, without distinguishing between different family SMEs.

We also contribute *to literature on governance in general* in private family SMEs. We conceptualized governance as the systems and structures that contribute to the enhancement of the organizational functioning. For family firms, this comprises both economic and noneconomic features. The conceptual framework indicates that the governance practices in private family SMEs are determined by the choice of the KDM how to deal with perceived governance needs. Because this choice is influenced by the noneconomic goals of the KDM, and even the governance needs can comprise certain noneconomic goals, the governance practices in private family SMEs will contribute to this mix of goals. In other words, the decision of the KDM how to deal with governance needs thus takes into account both the economic and noneconomic goals, which are then reflected in the governance practices of the firm. Further, it becomes clear that the mediated relationship between contingencies and practices is not only true for board features, but for governance practices as a whole. The prevalence of alternative governance mechanisms also indicates that the current domination of literature by literature on boards is not justified. And the independence index of the KDM helps to explain differences in governance practices among family firms, even if they have the same needs and are confronted with the same institutional forces. Overall, the framework proves a deeper understanding of the antecedents of governance by illustrating how governance practices come to exist in private family SMEs.

Overall, our findings contribute to family business literature because it delivers more insights into how governance practices in private family SMEs are shaped, and why private family SMEs with the same governance needs may have different governance practices to fill in these needs. We found how efficiency based motives coming from governance needs, regulatory and social influences coming from institutional forces and the reference point of the KDM, all together explain how governance practices are shaped in private family SMES. In other words, we suggest that the contingency perspective, the institutional perspective and behavioral agency theory need to be integrated to understand how governance practices come to exist in private family SMEs. The insight into the processes that mediate the relationship between governance needs and governance practices in private family SMEs provides an answer to our research question.

Although the different theories separately have been integrated in governance and family firm literature, they each only deliver a partial explanation of the governance practices in private family SMEs. By integrating these theories and adding the literature on learning frames, we offer an alternative theoretical approach versus the dominance of agency and resource dependence theory in family business literature. The framework provides a more holistic and integrative view of corporate governance in private family SMEs. The theoretical framework is a step forward toward theory development in the complex phenomena that is called family business which contributes to the evolvement of the family business field. By performing a qualitative research, starting from the constructivist paradigm, we offer an alternative empirical approach for the dominant quantitative approach, and provide an alternative for the positivist rationalistic ontology and epistemology that still dominate the field (Litz et al., 2012).

5.6.2. Practical implications

For practice, this study has implications towards certain stakeholders that appear in our conceptual framework. First of all, there are some implications for **individuals and institutions that are advising private family SMEs.**

For these practitioners our findings suggest that there is indeed a need to focus more on the needs of the individual firm, as is recently opposed in both literature and practice. However, our findings suggest that this will not be enough to actually influence the governance practices in these firms. We found that for governance actions to take place in a private family SME, the KDM of that firm needs to perceive the need. Our findings suggest that as long as these KDMs do not perceive governance needs, prescriptions will not have any governance implications in these firms. This means that effort has to be put into *making the KDMS of these firms aware of these needs*.

But our findings also suggest that institutional forces do influence the perception and handling of governance needs in these firms through the KDM, hereby implying that practitioners *have the opportunity to make these KDMs aware*. Through their experiences in other companies, and with practices that have shown to be successful in other companies with comparable needs, individuals and institutions are able to make the KDMs of these firm aware of certain governance needs in their company. A corporate governance code, although not compulsory, also may help making these KDMs aware of certain governance needs, through values and norms.

Another suggestion that we can make on the basis of our study, is that corporate governance in private family SMEs does not need to involve a board of directors by any means. Our findings indicate that there is a wide range of alternative governance mechanisms available to private family SMEs, that may fill in a lot of governance needs, even certain needs that can also be fulfilled by a board of directors. In certain situations, these alternative governance mechanisms may even provide a more optimal governance solution for a private family SME than a board. Therefore we suggest that practitioners who advise private family SMEs, *make the KDMs aware of the range of possibilities of formal and informal alternative governance mechanisms*, instead of only focusing on boards. Especially for the KDMs with a higher independence index, who are more resistant against governance practices with a systematic character, these alternative governance practices may sound appealing in comparison with for example a board.

And a last suggestion towards practitioners who advise private family SMEs, is that in prescribing governance practices to private family SMEs without VC-investors, *the family aspect and the independence index of the KDM should be considered.* The family aspect causes private family SMEs to have noneconomic goals which may cause them to have other optimal governance solutions than nonfamily firms. So this distinguishes family from their nonfamily counterparts. But also across family firms where there is no pressure from a VC investor to implement certain governance mechanisms, optimal governance solutions may differ due to different goals or a different learning frame of the KDM since those aspects determine the costs that are associated with a particular governance mechanism.

Second, our findings also have implications for the KDMs themselves. **For the KDMs of private family SMEs**, our findings may be interesting to *illustrate how important their awareness of governance needs is*. Our findings indicate that these KDMs indeed will take the necessary actions once these needs are perceived, and that these actions will lead to a governance solution that meets their economic and noneconomic goals (at least at the private family SMEs that are not VC-backed). But our findings also indicate that if there is no need perception by the KDM, no governance actions will be taken, although there may be the need for it. Especially in private family SMEs where the KDM is one person, this may pose a threat. Therefore, making KDMs aware of how crucial it is for them to be aware of the governance needs of their firm, may help to convince certain KDMs to stay open for institutions or individuals pointing to possible governance needs in their organization.

Third, the above mentioned suggestions towards practitioners that advise private family SMEs, may also serve as **educational contributions**. Educators in institutions surrounding private family SMEs, but also educators of students in business related topics, could benefit from our findings. In their audiences, there are business owners or business owners to be. By delivering these target groups *the insights of the possible impact of their attitude towards learning and the possible negative impact of not perceiving* *needs*, may prove very valuable once these practitioners start to implement what they have learned.

5.7. Limitations and suggestions for further research

This study also has its limitations. First of all, our data are gathered from private family SMEs. This research context shapes certain boundaries in that our findings cannot be generalized to other types of firms like public family firms, or large family firms. It seems reasonable to argue e.g. that in listed firms, which experience pressure from external markets, things may be different like for example: they may have to implement certain formal governance structures without experiencing the need. However, by clearly identifying our research context we provide information in which our findings can be generalized. And private family SMEs, even those without VC-investors do represent an important part of companies around the world. Further research on institutional forces and the KDM learning frame in other types of firms (like e.g. public family firms) however could provide additional insights.

Second, as also confirmed by our use of the constructivist approach, we are aware of the fact that multiple realities exist. We acknowledge that our data and analysis are a construction of ourselves as researchers and our respondents. However, by presenting our data analysis transparently we believe we gave the reader the opportunity to see how we derived our concepts and the assumptions we made. We also believe that our conceptual framework presents a conceptual analysis of the implicit meanings of the participants' experiences (Charmaz,2006), which we verified in our respondent check.

Third, additional cases could provide additional information. For example, although Elpa is a case in which there is an empowered board (BoA) and no external investors, we have no case in which there is an *official* nonpaper BoD and no external investors. Or cases where the 3rd or subsequent generations are owners, and not only involved in the management, or where the 4rd or later generations are owners. However, this is a consequence of performing theoretical sampling instead of statistical sampling. As indicated in chapter 3, we have selected our cases through theoretical sampling, which refers to selection for developing categories and concepts, until theoretical saturation in reached. So we are not aiming for representativeness. We believe we have reached theoretical saturation, without additional information from cases like the ones just mentioned, since no new properties of our theoretical categories were emerging during our analysis. In other words: we believe that although our conceptual framework can be expanded or refined by performing additional research, it represents a trustworthy picture of the reality we constructed together with our respondents, and that is valid under the conditions that we have specified as our context. After all, knowledge gets accumulated by building more informed and sophisticated reconstructions (Lincoln and Guba, 2000).

Fourth, we selected cases from within a certain region in Belgium. This means that our findings may not be generalized to other regions or other countries. However, we believe that the general arguments and findings about how governance needs are dealt with are likely to hold in other regions and countries, although the type of institutional forces may change. Further research in other regions and/or countries might provide additional insights within this respect.

Fifth, although we identified the relevant concepts in explaining the governance practices in private family SMEs, based on our research, we are not able to establish exhaustive lists of possible contingencies, governance needs, or governance mechanisms. This is not feasible based on a research of six case studies. However, this was not our goal: our goal was to deliver more insights into a complex social phenomenon which is in our case the handling of governance needs in private family SMEs, with its complex social relations. Quantitative research could deliver more insights into different mixes of contingencies that lead to certain governance needs, or the range of possible governance mechanisms for private family SMEs and the needs they can fulfill respectively.

Sixth, we found how the KDM learning frame is crucial in explaining the governance practices of private family SMEs without VC-investors. Schön (1983) argues that social and organizational contexts may influence the learning frame of an individual. We also found that the level of noneconomic goals of the KDM differ across family SMEs. Further research looking into how and when certain factors influence the learning frame and noneconomic goals of the private family SME owner may help in understanding why different KDMs have different learning frames or levels of noneconomic goals, and what triggers these learning frames and level of noneconomic goals to change. This could provide additional insights for the governance in these firms.

Seventh, as we also indicated in section 5.4.2., we found only two combinations of learning frame and level of noneconomic goals: a high learning frame combined with a low level of noneconomic goals, and a low learning frame combined with a high level of noneconomic goals. This could indicate that there is a relation between these two concepts, which does not seem unreasonable. However, this was out of the scope of our research, and therefore future research looking into this relationship, might provide interesting results for literature on SEW and literature on learning frames.

Eighth, given our finding that different independence indexes of KDMs lead to different governance practices in private family SMEs, further investigating whether these different governance practices, and thus different independence indexes are linked to a different performance, would be very fascinating and could even deliver more insights into the differences in performance across private family SMEs.

And lastly, the goal of this research was to develop propositions about the relationships that shape the governance practices in private family SMEs. Quantitative research testing these propositions would give the opportunity for statistical generalization of our findings.

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Appendix 1 - Interview topics list

Background information interviewee

- Age
- Education (initial + additional)
- Experience
- Current function within company
    - Since when
- Other functions in other companies/organisations
- Involvement professional organisations
- Opinion about governance in (private) family firms (explain what is precisely meant by governance)
- Opinion about code Buysse (explain what code Buysse precisely is)
- Role in the governance of the company

Background information company

- Ownership
- Presence External investors
- Other stakeholders
- Drivers professionalisation (gradually / after 'shock')
- Crisis
- Current life cycle of the company
- Strategic focus of company + change

Governance information

- People involved
- Presence board (BoD, BoA)
    - If not: why not?
    - Involvement board
- List below: who, since when, change (why) – check real involvement

number of members
insiders/outsiders
CEO duality
shareholding by board members
meeting frequency (per year)
mean length of meetings (hours)

Service
advise & counsel
advice on management questions
advice on legal issues
advice on financial issues
advice on technical issues
advice on market issues
network & lobbying
networking
lobbying and legitimizing
strategic participation
initiating strategy
implementing strategy
Control
behavioural control
assessing cost budget
assessing sales budget
assessing firm liquidity
assessing investments
assessing CEO behavior
assessing product quality
assessing human resources
assessing health & safety
output control
assessing environment
assessing financial return
assessing CSR (corporate social responsibility) activity
strategic control
ratifying (bevestigen) strategy
controlling strategy
family succession (fiscal, mentally)
conflicts (family, fam-non fam, internally, company vs privat,…)

- Other organisational institutions

Family related characteristics

- Generation

- Children: if yes:
    - are/will be in company?
        - If yes: When, how
        - If no:
            - why not
            - how do you see the future of the company
    - knowledge-transfer
- Family forum
- Family charter
- Opinion about external as CEO (procedures)

Appendix 2 – 'CEO locus of control' questionnaire

Rotter's I-E scale (1966)
CEO locus of control

1) a) Veel van de ongelukkige gebeurtenissen in het leven van mensen zijn gedeeltelijk te wijten aan pech
   b) De tegenslagen van mensen zijn een resultaat van de fouten die ze maken
2) a) Eén van de voornaamste redenen dat er oorlogen zijn, is dat mensen zich niet voldoende interesseren in politiek
   b) Er zullen altijd oorlogen zijn, ongeacht hoe hard mensen proberen om ze te voorkomen
3) a) Op lange termijn krijgen mensen het respect dat ze verdienen in deze wereld
   b) Spijtig genoeg passeert de waarde van een individu vaak zonder erkend te worden, ongeacht hoe hard hij probeert
4) a) Het idee dat leerkrachten onrechtvaardig zijn tegenover studenten is onzin
   b) De meeste studenten realiseren niet in welke mate hun evaluaties beïnvloed worden door toevallige gebeurtenissen
5) a) Zonder de juiste opportuniteiten kan iemand geen effectieve leider zijn
   b) Capabele mensen die er niet in slagen om leiders te worden hebben geen gebruik gemaakt van hun opportuniteiten
6) a) Sommige mensen hebben je niet graag, ongeacht hoe hard dat je probeert
   b) Mensen die er niet in slagen ervoor te zorgen dat anderen hun graag hebben, begrijpen niet hoe ze met anderen moeten opschieten
7) a) Ik heb vaak ondervonden dat wat staat te gebeuren, zal gebeuren
   b) Op het lot vertrouwen is nooit zo goed voor me gebleken als de beslissing om een bepaalde gedragslijn te volgen
8) a) In het geval van een goed voorbereidde student is er zelden zoiets als een oneerlijke test
   b) Examenvragen zijn vaak zo weinig gerelateerd aan de cursus zodat studeren echt nutteloos is
9) a) Een succes worden is een zaak van hard werken; geluk heeft daar weinig of niets mee te maken
   b) Een goeie job krijgen hangt hoofdzakelijk af van op het juiste moment op de juiste plaats te zijn
10) a) De gemiddelde burger kan een invloed hebben op overheidsbeslissingen
   b) Deze wereld wordt geleid door de enkele mensen die de macht hebben, en er is niet veel dat de kleine man daaraan kan doen

11) a) Als ik plannen maak dan ben ik bijna zeker dat ik ze kan doen werken
    b) Het is niet altijd verstandig om te ver op voorhand te plannen omdat vele dingen toch een zaak van geluk of pech blijken te zijn
12) a) In mijn geval heeft krijgen wat ik wil weinig of niets te maken met geluk
    b) Dikwijls kunnen we even goed beslissen door een munt op te gooien
13) a) Wie de baas mag worden hangt vaak af van wie het geluk had om het eerst op de juiste plaats te zijn
    b) Mensen de juiste dingen kunne laten doen is afhankelijk van vaardigheden; geluk heeft er weinig of niets mee te maken
14) a) Wat wereldgebeurtenissen betreft, zijn de meeste van ons slachtoffers van krachten die we noch kunnen begrijpen, noch kunnen controleren
    b) Door actief deel te nemen aan politieke en sociale zaken kunnen mensen wereldgebeurtenissen beheersen
15) a) De meeste mensen realiseren niet in welke mate hun levens gecontroleerd worden door toevallige gebeurtenissen
    b) Er bestaat echt niet zoiets als 'geluk'
16) a) Het is moeilijk om te weten of een persoon u echt graag heeft
    b) Hoeveel vrienden dat je hebt hangt af van hoe aardig dat je bent
17) a) Op lange termijn worden de slechte dingen die ons overkomen in evenwicht gebracht door de goede dingen
    b) De meeste tegenslagen zijn het resultaat van gebrek aan kwaliteiten, onkunde, luiheid of alle drie
18) a) Met voldoende moeite kunnen we politieke corruptie uitwissen
    b) Het is moeilijk voor mensen om controle te hebben over de dingen die politici in functie doen
19) a) Soms begrijp ik niet hoe leerkrachten komen tot hun punten die ze geven
    b) Er is een direct verband tussen hoe hard ik studeer en de punten die ik krijg
20) a) Vaak heb ik het gevoel dat ik weinig invloed heb op de dingen die me overkomen
    b) Ik kan onmogelijk geloven dat kans of geluk een belangrijke rol in mijn leven speelt
21) a) Mensen zijn eenzaam omdat ze niet proberen om vriendelijke te zijn
    b) Het heeft niet veel zin om te hard je best te doen om mensen te plezieren, als ze je graag hebben, hebben ze je graag
22) a) Wat er met me gebeurt is door mijn eigen toedoen
    b) Soms heb ik het gevoel dat ik niet genoeg controle heb over de richting die mijn leven uitgaat
23) a) Meestal begrijp ik niet waarom politici zich gedragen zoals ze doen
    b) Op lange termijn zijn mensen verantwoordelijk voor slecht overheidsbeleid zowel op nationaal als op locaal niveau

Appendix 3 – Coding in NVIVO