

# **Dissertation**

## **The Family behind the Business: Influences on Succession, Decision-making and Performance**

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## **Abstract (Deutsch)**

Familienunternehmen stellen die häufigste Art von Unternehmen, sowohl in Deutschland als auch weltweit, dar. Dadurch haben sie eine enorme wirtschaftliche Bedeutung und es ist somit auch von besonderem Interesse für die Forschung, die speziellen Charakteristika dieser Unternehmen sowie die Verbindungen und Einflüsse durch die Familien, die hinter dem Unternehmen stehen, zu untersuchen.

Es stellt sich die Frage, warum manche Familienunternehmen langfristig sehr erfolgreich sind, wohingegen viele andere Familienunternehmen bereits früh scheitern, selbst wenn die Nachfolge unproblematisch verläuft. Um dies genauer zu untersuchen kann man den Einfluss der Familie auf das Unternehmen näher beleuchten. Diese sogenannte Familiness stellt die Einflüsse durch die Familie beziehungsweise durch spezielle Ressourcen, die durch den Familienhintergrund vorhanden sein können, dar. Die Familiness kann dabei unterschiedliche Ausprägungen annehmen und damit auch eine Ursache für die Heterogenität von Familienunternehmen sein. Die Untersuchung der Familiness kann daher dazu beitragen Unterschiede zwischen Unternehmen, der Leistung von Unternehmen und Entscheidungsprozesse in Familienunternehmen besser zu verstehen.

Bei der Betrachtung der Besonderheiten von Familienunternehmen ist immer auch der kritische Zeitpunkt der Unternehmensnachfolge zu nennen, da viele Unternehmen an diesem Punkt in ihrem Lebenszyklus mit besonderen Schwierigkeiten konfrontiert werden und bei unzureichendem Management dieses Prozesses scheitern können. Der Prozess der Unternehmensnachfolge bedarf daher frühzeitiger Planung und Strukturierung. Dabei müssen in großem Maße Informationen zwischen den beteiligten Parteien (Übergebern und (potentiellen) Nachfolgern) ausgetauscht werden. Wie und ob die Informationen in diesem Kontext übertragen werden, stellt einen entscheidenden Faktor für das weitere Bestehen des Unternehmens dar, da die Entscheidungen für und gegen eine Nachfolge, aber auch strategische Managemententscheidungen während und nach der Nachfolge auf Basis der vorhandenen Informationen getroffen werden.

Im Kontext des Einflusses der Familie auf das Unternehmen stellt sich auch die Frage, wie genau sich die Familie und deren Mitglieder auf die Entscheidungen im Unternehmen auswirken. Ein zentraler, häufig für die Besonderheiten von Familienunternehmen genannter Faktor sind die Werte des Unternehmens und der Familienmitglieder. Überraschend wenige Studien haben jedoch versucht, die Werte von Familienunternehmen direkt zu messen und die Entscheidungsfindung mit den Werten und der Familiendynamik zu verbinden. Durch die Untersuchung dieser Werte in Familienunternehmen und deren Einfluss können neue Erkenntnisse über die Entscheidungsfindung in Familienunternehmen erlangt werden.

Das übergeordnete Ziel dieser Dissertation ist es, neue Erkenntnisse über die Einflüsse zu gewinnen, die aus der Familie hinter dem Familienunternehmen resultieren. Dafür soll zunächst ein genaueres Verständnis der durch die Familiensindizierten Unterschiede zwischen Familienunternehmen erlangt werden. Daraufhin sollen im Rahmen des Unternehmensnachfolgeprozesses in Familienunternehmen, Erkenntnisse zum Übergang und der Zusammenarbeit von Übergebern und Übernehmern erlangt werden. Solche Erkenntnisse können dazu beitragen Problemen und Konflikten im Nachfolgeprozess vorzubeugen oder diesen entgegen wirken zu können. Basierend auf den Erkenntnissen zum Einfluss von Werten auf das Unternehmen wird abschließend untersucht, wie sich die persönlichen Werte der Familienmitglieder in Führungspositionen direkt auf das strategische Entscheidungsverhalten der Familienunternehmen auswirken. In allen Themenbereichen dieser Dissertation stellen die beteiligten Akteure jeweils auf der Individualebene die Analyseeinheit dar. Aufgrund des zentralen Einflusses der Unternehmerfamilie auf das Unternehmen beziehen sich die untersuchten Auswirkungen jedoch auf das Familienunternehmen sowie die daran beteiligten Personen als Ganzes.

In der ersten Studie wird untersucht, wie sich die Familiensindizierten auf den Erfolg von Familienunternehmen auswirkt. Zahlreiche Studien haben sich bereits mit dem Vergleich von Familien- und nicht Familienunternehmen befasst. Hingegen haben sich erst wenige mit den einzelnen Ausprägungen der Familiensindizierten in einer empirischen Studie beschäftigt. Für die Analyse wurde eine quantitative Studie

mithilfe einer Skala (FIFS) zur Messung der Familiness durchgeführt und ausgewertet. Die Ergebnisse dieser Studie zeigen, welche Elemente der Familiness die Leistung von Unternehmen beeinflussen. Hierbei konnte insbesondere ein negativer Einfluss auf die Performance des Unternehmens durch die Konzentration von Eigentum, Führung und Kontrolle auf die Familie festgestellt werden. Andererseits lassen sich durch eine transgenerationale Ausrichtung und die Bindung zwischen Familie und Mitarbeitern positive Auswirkungen auf die Performance feststellen. Generell zeigt auch eine ausgeprägte Familienunternehmenskultur einen positiven Einfluss auf die Performance der Unternehmen. Die Studie unterstützt damit deutlich den Bedarf der dezidierten Auseinandersetzung mit den verschiedenen Einflüssen, die mit der Beteiligung der Familie am Unternehmen einhergehen.

In der zweiten Studie wird zunächst eine qualitative Feldstudie durchgeführt, die analysiert ob, in welchem Ausmaß und in welchen Themenbereichen Informationsasymmetrien zwischen den am Nachfolgeprozess beteiligten Familienmitgliedern existieren. Die in dieser Studie gefundenen Effekte werden, auch aufgrund der vielen möglichen individuellen Interessen der Beteiligten, vor dem Hintergrund der Prinzipal-Agenten-Theorie diskutiert. Die Ergebnisse zeigen, dass Informationsasymmetrien in der familieninternen Unternehmensnachfolge nachweisbar sind und diese die Nachfolge gefährden können. Diese Informationsasymmetrien sind dabei in unterschiedlichen Themenbereichen und in allen Phasen des Nachfolgeprozesses zu finden, variieren jedoch in ihrer Häufigkeit zwischen den Phasen. Die dritte Studie, die auf diesen Ergebnissen basiert, bestätigt anhand quantitativ empirischer Methoden das Vorhandensein von Informationsasymmetrien in der Unternehmensnachfolge in einem breiteren Kontext. Zudem werden die Mechanismen zur Überwindung von Informationsasymmetrien genauer analysiert. Konkret geben die Ergebnisse weitere Anregungen zu wichtigen Informationen, die bei der Unternehmensnachfolge ausgetauscht werden müssen. Es kann darüber hinaus bestätigt werden, dass Informationsasymmetrien im Verlauf des Nachfolgeprozesses abnehmen und das Ausmaß der Informationsasymmetrien bereits durch die Nachfolgerauswahl beeinflusst werden kann. Die

Studienergebnisse zeigen auch, dass es Mechanismen gibt, Informationsasymmetrien erfolgreich vorzubeugen oder zu überwinden, wie z. B. eine frühzeitige und strukturierte Planung oder klare Verantwortlichkeiten und Führungsstrukturen. Schließlich zeigt die Studie auch die Bedeutung gemeinsamer Werte der Familienmitglieder auf sowie, dass diese ebenfalls Informationsasymmetrien entgegenwirken können.

Die abschließende quantitative Studie untersucht den Zusammenhang zwischen den individuellen Werten der Familienmitglieder und der strategischen Entscheidungsfindung im Unternehmen. Für die Analyse wurden eine Skala zur Messung von grundlegenden menschlichen Werten und eine Skala zur Messung des sozio-emotionalen Reichtums herangezogen und in Verbindung gebracht. Die Ergebnisse der Stichprobe von 1003 deutschen Familienunternehmen zeigen einen signifikant positiven Zusammenhang zwischen Werten und den gemessenen FIBER-Dimensionen. Die Studie führt zu einem Modell, das erklärt, wie Werte aus der Familie hinter dem Unternehmen, durch die Individuen, Entscheidungen im Unternehmen beeinflussen.

Zusammenfassend wird aufgezeigt, dass die Familie hinter dem Unternehmen von besonderer Relevanz ist und einen starken Einfluss auf die Prozesse in den sich überlappenden Systemen von Familie und Unternehmen hat. Dieser starke Einfluss der Familie zeigt sich sowohl im Einfluss der Familiness auf die Performance der Unternehmen, im Nachfolgeprozess zwischen den beteiligten Familienmitgliedern als auch durch den Einfluss der persönlichen Werte der involvierten Familienmitglieder auf das strategische Entscheidungsverhalten der Unternehmen. Die Familie selbst stellt sich so als relevanter und wichtiger Treiber, aber auch als mögliche Quelle für Konflikte heraus, und ist somit entscheidender Faktor für die Unternehmensleistung und letztlich das Überleben des Unternehmens. Es wird gezeigt, dass die verschiedenen Einflüsse der Familiness auf Unternehmen dezidiert betrachtet werden müssen, da diese Einflüsse sich meistens, aber nicht generell, positiv auf die Unternehmen und die inhärenten Prozesse auswirken und somit von bedeutender Relevanz für die Unternehmen sind. Die Familiness erweist sich dabei als ebenso heterogen wie die Familienunternehmen selbst und kann dazu beitragen

die Unterschiede zwischen Familienunternehmen zu erklären. Zudem wird, qualitativ und quantitativ, bestätigt, dass Probleme und Konflikte durch Informationsasymmetrien im Nachfolgeprozess zwischen den beteiligten Familienmitgliedern aufkommen können und folglich langfristige und strukturierte Übergabeprozesse notwendig sind, um diesen entgegenwirken zu können. Zuletzt wird gezeigt wie sich Werte der involvierten Mitglieder der Unternehmerfamilie auf das Unternehmen und die strategische Entscheidungsfindung auswirken.

Die Familie, mit ihren involvierten Individuen, als Einflussfaktor auf das Unternehmen, bringt somit vielfältige positive als auch negative Auswirkungen mit sich. Diese Dissertation hat sich drei zentralen Spannungsfeldern gewidmet: Dem Einfluss der Familiness auf die Performance des Unternehmens, dem Nachfolgeprozess und dem Einfluss der individuellen Werte der Familienmitglieder auf das Unternehmen. Damit leistet diese Arbeit einen Beitrag zur Forschung und kann ein Startpunkt für weitere wissenschaftliche Betätigung sein, die Unternehmerfamilie und ihre Bedeutung besser zu verstehen, um so wissenschaftliche aber auch praxisrelevante Erkenntnisse zu gewinnen.

## **Abstract (English)**

Family businesses are the most common type of business both in Germany and worldwide. Thus, they have enormous economic importance, and it is of particular interest for researchers to investigate the unique characteristics of these businesses and the connections and influences of the families behind them.

The question arises why some family businesses are very successful in the long term, while many others fail early on, even if the succession is unproblematic. Examining the influence of the family on the company can help to shed more light on this. This so-called “familiness” represents the influences of the family, respectively of unique resources, which are present by the family background irrespective of the outside resources available to the business. Familiness can, however, also differ between family businesses and thus be a cause of heterogeneity among family businesses. The analysis of familiness can, therefore, contribute to a better understanding of differences between businesses, the performance of businesses, and decision-making processes in family businesses.

When considering the peculiarities of family businesses, business succession is a critical point to take into account because many firms face particular difficulties when succession becomes necessary. Indeed, many firms fail due to inadequate management of the process. Consequently, it can be seen that the process of business succession requires early planning and structuring. It also implies the need for a large exchange of information between the parties involved (i.e., predecessors and (potential) successors). How and whether information is transferred in such a context is a decisive factor for the continued existence of firms because decisions for and against succession as well as strategic management decisions during and after succession are made based on the available information.

Within the context of family influence on a firm, the question also arises as to how exactly the family and its members affect decisions in the firm. A central factor, often mentioned as a unique characteristic of family businesses, are the values of the firm and the family members. Surprisingly few studies have attempted to measure the values of family businesses directly and to link decision-making with

these values and family dynamics. By studying these values and their influence on family businesses, new insights about decision-making in family businesses can be achieved.

The main goal of this dissertation is to gain new insights into the influences resulting from the family behind the family businesses. To achieve this purpose, it is necessary to first gain a more detailed understanding of the differences between family businesses in terms of their familiness. Next, within the framework of the business succession process as executed in family businesses, insights into the handover and cooperation between predecessor and successor will be explored. Such insights can contribute to the prevention or counteraction of problems and conflicts during the succession process. Based on the findings regarding the influence of values on a firm, the final part of the thesis examines how the personal values of family members in management positions have a direct impact on the strategic decision-making behavior of family businesses. In all subject areas of this dissertation, the actors involved represent the unit of analysis at the individual level. However, due to the central influence of an entrepreneurial family on a family-owned company, the examined effects relate to the family business as a whole as well as the individual people involved in it.

The first study examines the impact of familiness on the performance of family businesses. Several prior studies have focused on the comparison of family and non-family businesses. In contrast, only a few studies have dealt with the individual parts of familiness in an empirical study. For the analysis, a quantitative study was conducted and analyzed based on a scale (FIFS) to measure familiness. The results of this study show which elements of familiness influence the performance of businesses. In particular, a negative influence on performance was identified that resulted from the concentration of ownership, leadership, and control on the family. On the other hand, transgenerational orientation and the bond between family and employees showed positive effects on performance. In general, a distinct family business culture also has a positive influence on business performance. The study thus clearly supports the need for a closer examination of the various influences associated with a family's participation in business.



In the second study, qualitative field research was conducted to reveal whether, to what extent, and in which thematic areas information asymmetries exist between the family members involved in the succession process. The effects in this study are discussed against the background of principal-agent theory, also due to the many possible individual interests of the involved people. The results show that information asymmetries are identifiable in intrafamily business succession and that these can endanger succession. The information asymmetries can be found in different subject areas and in all phases of the succession process, but their frequency varies between the phases of the succession process. The third study, based on these findings, confirms the existence of information asymmetries in business succession in a broader context using quantitative empirical methods. In addition, the mechanisms for overcoming information asymmetries are analyzed in detail. Specifically, the results provide further suggestions for important information that must be exchanged during the process of business succession.

It can also be confirmed that information asymmetries decrease in the course of the succession process and that the extent of information asymmetries can already be influenced by the selection of the successors. The study results also show that there are mechanisms to successfully prevent or overcome information asymmetries, such as early and structured planning or clear responsibilities and governance structures. Finally, the study illustrates the importance of shared values among family members, which can help counteract information asymmetries.

The concluding quantitative study examines the relationship between the individual values of family members and strategic decision-making in a firm. The analysis relied on a scale to measure basic human values and a scale to measure socio-emotional wealth. The results from our sample of 1003 German family businesses show a significant positive relationship between values and the measured FIBER dimensions. This results in a model that explains how values of the family members behind the company, influence decision-making in the firm.

In summary, it is shown that the family behind the business is of particular relevance and has a strong influence on the processes in the overlapping systems of family and business. This strong influence of the familiness can be observed in the

influence of the family on the performance of the firms, in the succession process between the involved family members as well as through the influence of the personal values of the involved family members on the strategic decision-making behavior of the firms. The family itself turns out to be a relevant and important driver, but also a potential source of conflict, and is thus a decisive factor for business performance and ultimately the survival of the business. It is shown that the different influences of the familiness on the firms to be considered decisively, since these influences mostly, but not generally, have a positive effect on the businesses and the inherent processes and are therefore of significant relevance for the firms. Furthermore, familiness proves to be as heterogeneous as the family businesses themselves and can help to explain the differences between family businesses. In addition, it is confirmed, qualitatively and quantitatively, that problems and conflicts can arise through information asymmetries in the succession process between the family members involved and that consequently long-term and structured transfer processes are necessary in order to be able to counteract these. Finally, it is shown how the values of involved members of the owner family affect the firm and the strategic decision-making.

The family as an influencing factor, with its involved individuals, thus has various positive as well as negative effects on the firm. This dissertation is dedicated to three central areas of tension: the influence of familiness on the performance of the firm, the succession process and the influence of the individual values of family members on the firm. This work thus makes a contribution and can be a starting point for further research activities to understand the entrepreneurial family and its significance better, in order to gain both scientific and practical insights.

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## List of Abbreviations

B (FIBER)	Binding social ties
C	Conservation
CEO	Chief executive officer
CFI	Comparative fit index
CSR	Corporate social responsibility
df	Degrees of freedom
E (FIBER)	Emotional attachment of family members
ed./eds.	Editor/s
e.g.	Exemplum gratia: for example
ESS	European social survey
et al.,	Et alii: and others
Etc.	Et cetera: and so forth
EU	European Union
F (FIBER)	Family control and influence
F-PEC	Family influence on Power, Experience and Culture
FBI	Family business identity
FEB	Family-employee bond
FIBER	Scale for measuring socioemotional wealth
FIFS	Family influence familiness scale
H	Hypothesis
I (FIBER)	Identification of family members with the firm
i.e.	id est: that is
IT	Information technology
Ln	Natural logarithm
M	Model
Max	Maximum
Min	Minimum
N	Sample size
OC	Openness to change
OLS	Ordinary least squares

OMC	Ownership, management and control
p.	Page
p	Probability value
PAF	Proficiency level of active family members
Pot.suc	Potential successor
Pre/PRE	Predecessor
PVQ	Portrait values questionnaire
R (FIBER)	Renewal of family bonds through dynastic succession
RMSEA	Root mean square error of approximation
SD	Standard deviation
SE	Self-Enhancement
SEW	Socioemotional wealth
SME	Small and medium-sized enterprises
SOI	Sharing of information between active family members
ST	Self-Transcendence
Suc/SUC	Successor
TLI	Tucker Lewis index
TGO	Transgenerational orientation
VIF	Variance inflation factor

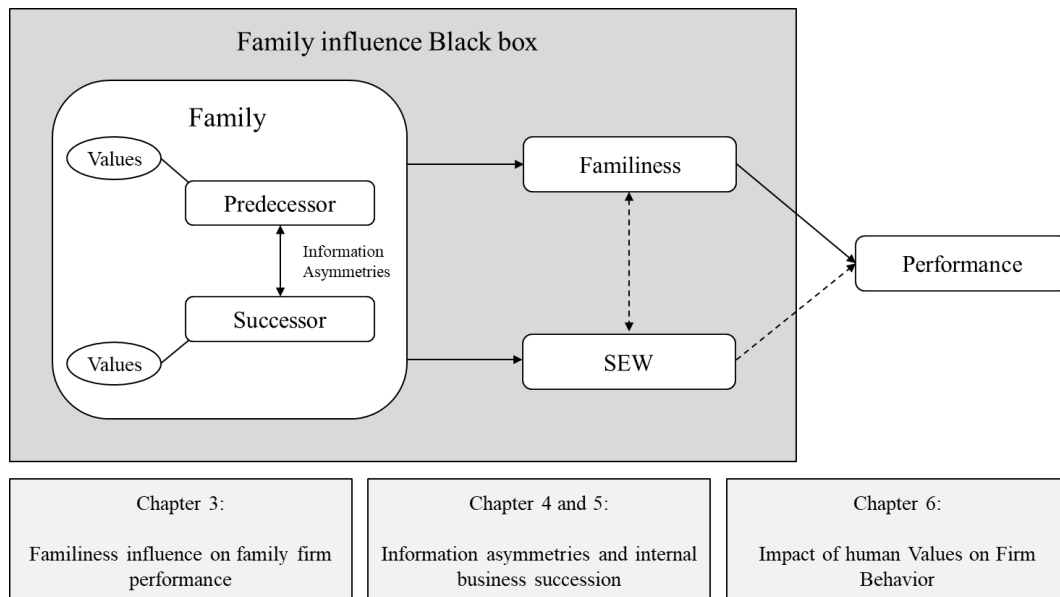
# 1 Introduction

Family businesses represent the majority of all businesses worldwide (Astrachan & Shanker, 2003; Gersick, McCollum, & Lansberg, 1997; Sharma, Chrisman, & Gersick, 2012). They employ most of the employees and are responsible for a large part of the value creation of the economy, especially in Germany (Gottschalk et al., 2017; Wolter & Sauer, 2017). Unfortunately, many of these companies do not manage to survive the handover from the founder to the successor (Handler, 1994; Le Breton-Miller, Miller, & Steier, 2004; Ward, 1988) while others are very successful over many generations (Jaskiewicz, Combs, & Rau, 2015; Kets de Vries, 1993). This dissertation aims to better understand the causes, triggers, and antecedents of the survival or failure of firms. It examines three possible reasons in detail: (a) the influence of familiness on the firm, (b) information asymmetries in the business succession process, and (c) the impact of human values on firm behavior. Family is the main driving force behind these reasons (Jaskiewicz, Combs, Shanine, & Kacmar, 2017); hence, the individual family members are the units of analysis.

The central driving factor in this dissertation is the family and the influences caused by the family on the firm, and the inherent processes. The way in which the family influences the company has not yet been explored in detail. Thus, we call the process through which the family affects the firm as a family influence black box.

This dissertation has three main sections. The first section generally examines how familiness (i.e., the influence through the family behind the business) affects the performance of a firm. The second section goes into more detail and directly into the family. It examines the critical point in time of the handover from one generation to the next, which can influence the performance of a firm arising from potential succession failure. It particularly explores the possibility of information asymmetries between the predecessor and the successor in the intrafamily business succession process. Since values and shared values play a role in preventing information asymmetries, the last section examines the question of how the values of the individuals in the family affect the decision-making behavior in the firm.

**Figure 1: Interaction of the key elements: Family, Familiness, SEW and Performance**



Source: Own illustration.

Figure 1 shows an overview of the relationship between the parts of this dissertation. The first central part of this dissertation is about the influence of familiness on the family firm and, in particular, on the firm's performance. Family businesses differ considerably from each other; they are not a homogenous group in which all behave in the same way (Chua, Chrisman, Steier, & Rau, 2012; Jaskiewicz & Dyer, 2017; Nordqvist, Sharma, & Chirico, 2014). This is also reflected by the different survival rates and performances of family businesses (Chua, Chrisman, & Sharma, 1999). Therefore, the question about the reasons behind these different performances arises. More precisely, this dissertation asks whether the familiness, which represents the influence arising from the family business background, can help explain the differences in family firms' performance. In an early attempt to measure the influence of the family on the firm performance, Rutherford et al. (2008) used the Family Influence on Power, Experience, and Culture (F-PEC) questionnaire to figure out if there is a relationship between familiness and performance. The results of their study are mixed and do not allow definite conclusions, leaving a research gap in the familiness-performance relationship, which may be attributed to the lack of an appropriate measurement tool (Oswald, Muse, & Rutherford, 2009).

The familiness construct has so far been studied mainly from two theoretical perspectives. First, through the lens of the resource-based approach (Habbershon & Williams, 1999) and second, through the lens of the new systems theory (Frank, Kessler, Rusch, Suess-Reyes, & Weismeier-Sammer, 2017). The resource-based approach assumes an influence via the special resources endowment through the family business background (Habbershon & Williams, 1999). In contrast, the recently developed approach according to the new systems theory assumes that the family business background and the attitudes associated with it fundamentally influence all decisions in the company in the form of decision premises (Frank, Lueger, Nosé, & Suchy, 2010). This dissertation follows the approach introduced by Frank et al. (2017), who used the new systems theory to develop a scale for measuring familiness known as Family Influence Familiness Scale (FIFS). This scale is also used as a measurement scale in this dissertation. Resulting from this ongoing discussion, a more detailed understanding of the processes and influence of the familiness on the business is still needed (Frank et al., 2017).

A growing body of literature has been exploring the particularities of family businesses by comparing them with non-family businesses (for an overview, see Rutherford, Kuratko, & Holt, 2008). Another approach of the literature is to better understand the peculiarities of this heterogeneous group of family businesses separately (Chua et al., 2012; De Massis, Wang, & Chua, 2019; Jaskiewicz & Dyer, 2017). Thus, this dissertation emphasizes to understand the heterogeneity of family businesses better. This dissertation will analyze reasons why there are many old, successful family businesses on the one hand and many unsuccessful ones on the other that failed to reach the next generation (Kets de Vries, 1993). Besides the already known reasons, such as succession problems (Ward, 1988) or family conflicts (Eddleston & Kellermanns, 2007), examining familiness and its influences can shed further light on the phenomenon. This part of the dissertation deals with the following research questions:

1. *How does familiness influence firm performance in family businesses?*
2. *Which parts of familiness are more or less fruitful for firm performance?*

A quantitative empirical study was conducted to answer the research questions above, which inquired into the perspectives of the individual persons and probed the influence of familiness on the family business.

The second main part of the dissertation examines the critical point in time of succession in detail. This part focuses on the people and processes within the family involved. Business succession marks a crucial point in the life cycle of a company at which many family firms fail (Handler, 1994). The current forecasts show that 135000 business successions have to take place in Germany alone from 2018–2022 (Kay, Suprinovic, Schlömer-Laufen, & Rauch, 2018), which will affect and possibly endanger a considerable number of jobs and their value creation. Therefore, research about the succession process and its potential problems has particular economic significance. The already known reasons for succession failure are manifold, which include poor succession planning, lack of successor preparation, or family-related issues, for example (Eddleston & Kellermanns, 2007; Handler, 1994; Miller, Steier, & Le Breton-Miller, 2003; Ward, 1988). However, little attention to date has been paid to possible information asymmetries in the succession process between the predecessor and the successor of a firm (Madison, Holt, Kellermanns, & Ranft, 2016; R. I. Williams, Pieper, Kellermanns, & Astrachan, 2018). The succession process is initialized and controlled by the predecessor. He<sup>1</sup> sets the framework conditions for the succession, defines the requirements for the successor, and, if necessary, supports and develops the succession candidates, selects the successor, and negotiates a contractual arrangement with the successor (Le Breton-Miller et al., 2004). In the case of intrafamily successions, this is often a long-term process that already begins in childhood (Le Breton-Miller et al., 2004). Communication throughout this process is essential, as it is used to transfer information and knowledge (Cabrera-Suárez, De Saá-Pérez, & García-Almeida, 2001). The succession process, which in family businesses often begins in childhood, initially takes place only in the family system. In a later phase and concurrent with the entry of the successor into the firm, the business context is added, causing both family and business systems to overlap

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<sup>1</sup> For reasons of easier readability, the male form is generally used to refer to both male and female persons.



(Tagiuri & Davis, 1996). This part of the dissertation builds upon the argument that information asymmetries can occur as part of the communication (or due to a lack of communication) in the succession process about different goals and motivations between the involved individuals (Kotlar & De Massis, 2013; Sharma & Irving, 2005). As agency theory directly deals with information asymmetries and helps in explaining certain behaviors, the succession process is analyzed against the backdrop of this theory (Madison et al., 2016).

There are already first hints in the literature pointing to the existence of information asymmetries and agency costs in family businesses (Chrisman, Chua, & Litz, 2004; Madison et al., 2016; Schulze, Lubatkin, Dino, & Buchholtz, 2001; Zellweger & Kammerlander, 2015). Few research studies mention that information asymmetries could be possible throughout the succession process (Dehlen, Zellweger, Kammerlander, & Halter, 2014; R. I. Williams et al., 2018). In their recent study, Madison, Holt, Kellermanns, and Ranft (2016) recommended more research into the existence of information asymmetries among the actors in family firms (i.e., the predecessors and family-internal successors). Recent studies, however, have discussed information asymmetries in intrafamily succession from a theoretical standpoint only, offering early indications of their existence (Dehlen et al., 2014; Zellweger & Kammerlander, 2015). Empirical knowledge about concrete information asymmetries is lacking, especially throughout the intrafamily business succession process. So far, no information is available about the specific topics and in which phases of the succession process information asymmetries appear, how they change over time, how family members deal with them, and how they can be avoided or resolved. The following questions were formulated to address the perceived research gap in this dissertation:

3. *What types of information asymmetries exist in family businesses before, during, and after the succession process?*
4. *Do information asymmetries change over the different phases of succession?*
5. *Are people aware of information asymmetries in the family businesses succession process?*

## 6. *How do involved family members deal with information asymmetries?*

It is necessary to take a closer look at the exchange of information during the succession process to answer the questions above. To achieve this, a qualitative field study was first carried out to gain a clear understanding of the process, acquire more in-depth knowledge, and form propositions. Based on these findings, a quantitative empirical study was subsequently conducted to broaden and validate the results. In both studies, the focus was on the perspectives of the involved individual family members (predecessors and (potential) successors), as they were asked directly about their assessments of information asymmetries, both in the interviews and the survey.

The third main part of this dissertation concerns the influence of the basic human values on firm behavior. It focuses directly on the personal values of the CEO, who is also a family member, and the influence of these personal values on the firm behavior. For long, values have been deemed to play a central role in explaining family firms' particular behaviors and decision-making (Beckhard & Gibb Dyer, 1983). Many authors have noted that values derived from family ownership can considerably influence the decision-making process (Chua, Chrisman, & De Massis, 2015; Fletcher, Melin, & Gimeno, 2012; Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Pieper, 2010; Schulze & Kellermanns, 2015; Zellweger & Dehlen, 2012) and the general behavior of family firms (Yuan & Wu, 2018). However, there is a lack of empirical research about how values manifest themselves, what values are predominant in a family firm, and how they influence the decision-making process (Duh, Belak, & Milfelner, 2010; Koironen, 2002). Often values are used to justify a phenomenon, such as the distinctive corporate culture (Fletcher et al., 2012), longevity (Lumpkin & Brigham, 2011), corporate social responsibility (Marques, Presas, & Simon, 2014), or goal setting (Kotlar & De Massis, 2013), without thoroughly explaining or investigating values as antecedents, even though understanding values has become crucial for family firms because values are often identified as a tool to overcome crises and secure continuity (Fletcher et al., 2012). Many questions about values remain unanswered while being of particular significance in the field of family firm research, especially

concerning the mechanisms through which values of the owner-family affect the firms (Bertrand & Schoar, 2006) and the role of individual and family values within the firm (Duh et al., 2010; Sharma, 2004). The following questions were formulated to address the perceived research gaps:

7. *Are basic human values the driver behind socioemotional wealth and thus the driver of strategic behavior and family business dynamics in family firms?*
8. *What are the predominant values in family firms?*

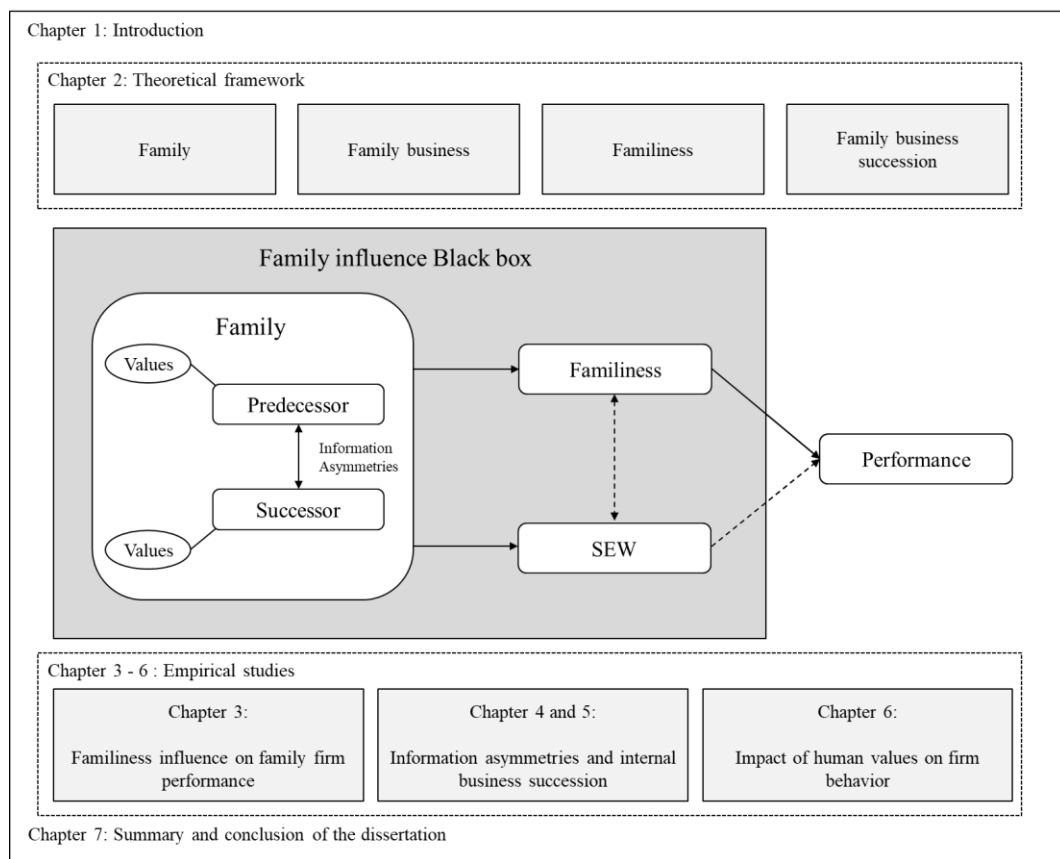
Based on the theory of basic human values by Schwartz (1992) and the FIBER scale for measuring socioemotional wealth (Berrone, Cruz, & Gómez-Mejía, 2012), a quantitative survey was conducted to answer the questions above. A sample of 1003 German family businesses was used to analyze the influence of the basic human values on firm behavior. In general, the motivation of this dissertation is to generate new insights into the black box how the family influences the firm behavior and better understand the causes, triggers, and antecedents of the survival or failure of firms.

## **1.1 Structure of the Dissertation**

To answer the mentioned research questions and to deliver deep insights, the dissertation is structured as follows. The first chapter is an introduction that outlines the goals and the underlying motivation of this dissertation. The second chapter explains the essential underlying terms and concepts for the subsequent chapters and gives an overview of the current state of research unless this is not already done in the chapters themselves. Chapter 3 introduces a quantitative study of 558 German family businesses aimed at examining the impact of familiness and its individual components on the performance of family businesses. Chapter 4 discusses qualitative case studies that were used to determine whether and in what form information asymmetries occur in the succession process. These findings are used to formulate a theoretical model based on the study's findings and existing theories. Chapter 5 expands the gained knowledge, and with the help of a quantitative study, featuring a sample of 215 German family firms, it ascertains whether the categories

of information asymmetries discovered in the qualitative study could also be validated in a broader context. Additionally, the question of how information asymmetries can be countered and prevented will also be investigated. Chapter 6 deals with the question of how the basic human values of the family members can affect the decision-making behavior of the firm. This issue was examined using a large sample of 1003 participants in Germany. The concluding chapter summarizes the dissertation and discusses theoretical and practical implications. Figure 2 shows the structure of the dissertation.

**Figure 2: Structure of the Dissertation**



Source: Own illustration.

This dissertation uses both theory building (chapter 4) and theory testing methods (chapters 3, 5, and 6). Each of the four main chapters represents a self-contained research project with its own research questions, methods, results, discussions, and conclusions. Table 1 shows the research projects with the respective co-authors, methods, and the research contribution of the author of the dissertation.

**Table 1: Integrated Studies**

Authorship	Research Gap	Main Theoretical Concepts	Methodology and Sample	Presentations	Contribution
<b>Paper 1: Is Family Influence Always Beneficial? How Family Ownership, Family Leadership and Family Culture Influence the Firm Performance</b>					
Wolff, Sven Moog, Petra	Influence of familiness on firm performance	New systems theory, resource-based approach	Quantitative, 558 family businesses, Germany, OLS regression analysis, factoranalysis	Forschungsseminar Linz-Bern-Siegen, 2018, Universität Bern	In this paper, I was in charge of collecting all data, reviewing the literature, analyzing the data, and writing the paper.
<b>Paper 2: It Happens Even in The Best Families: Information Asymmetries and Internal Business Succession.</b>					
Schell, Sabrina Wolff, Sven Moog, Petra	Information asymmetries in family business succession	Agency theory	Qualitative, 14 case studies, Germany, semi-structured interviews	Academy of Management (AOM) 2019, Boston Forschungsseminar Linz-Bern-Siegen, 2014, Universität Bern	In this paper, I was in charge of reviewing the literature, analyzing the data, developing the overall model, and writing large parts of the article.
<b>Paper 3: Information asymmetries in Intrafamily Succession</b>					
Wolff, Sven Schell, Sabrina Moog, Petra	Information asymmetries in family business succession	Agency theory	Quantitative, 215 family businesses, Germany, OLS regression analysis	European Academy of Management (EURAM) 17 Conference, Glasgow, 2017	In this paper, I was in charge of collecting the data, reviewing the literature, analyzing the data, and writing large parts of the article.
<b>Paper 4: Back to the Roots: Applying the Concept of Individual Human Values to Understand Family Firm Behavior</b>					
Ruf, Julian Graffius, Michael Wolff, Sven Moog, Petra Felden, Birgit	Drivers of socioemotional wealth, influence of values on firms	Basic human values, socioemotional wealth	Quantitative, 1003 family businesses, Germany, OLS regression analysis, factoranalysis	European Academy of Management (EURAM) 19 Conference, Lisbon, 2019	In this paper, I was in charge of collecting and analyzing the data and writing parts of the article.

## **2 Theoretical Background**

This chapter provides an overview of the definitions and discussions of the terms and concepts central to this dissertation. This chapter is intended to provide a broader perspective on the current definitions, their development, and different research concepts in addition to the following research articles. First of all, basic definitions of the terms “family” and “family business” are necessary (see sections 2.1 and 2.2). Section 2.3 presents various definitions and perspectives on the concept of familiness. Section 2.4 illustrates the business succession process according to the “Integrative Model for Successful Family Owned Business Successions” (Le Breton-Miller et al., 2004, p. 318) and links it with the idea of contract negotiation between predecessor and successor, which raises the possibility of information asymmetries.

### **2.1 Family**

Since the family is the basis or at least the most important framework of the present studies, it is necessary to define the term family at first. Unfortunately, in family business research articles, a definition of the term “family” is usually missing (Astrachan, Klein, & Smyrnios, 2002). However, a uniform definition of family is not trivial, since the term can be used to describe a variety of cohabitation forms (Klein, 2010). Traditionally, a distinction is made between the nuclear families, which usually consist of two parents and one or more children (Blackwell, 2010), extended families, which additionally include other relatives (Andersen & Taylor, 2008), and single-parent families with only one parent (Chapman, 2014). Further classifications also include the geographic location (i.e., the coexistence of the family members) or the biological ancestry (Klein, 2010). For the influences of the family on business and succession, a very general definition is chosen to include as many forms of family life as possible. This is necessary because the following research is about the influences of shared values (Astrachan et al., 2002), the strong bond between the family members (Berrone et al., 2012), and trust between the family members rather

than the exact kinship or domestic separation. Thus, the following definition of family by Astrachan et al. (2002, p. 55) is adopted: *“a group of persons including those who are either offspring of a couple (no matter what generation) and their in-laws as well as their legally adopted children.”*

## **2.2 Family Business**

Family businesses are the dominant form of enterprises in the world, and most of them belong to the group of small and medium-sized enterprises (Astrachan & Shanker, 2003; Lansberg, Perrow, & Rogolsky, 1988; Sharma et al., 2012). Following a broad and general definition of family business, data from the United States show that half of all American companies can be classified as family businesses (Vozikis, Liguori, Gibson, & Weaver, 2012). In Germany, this proportion is even higher, and more than 93% of all companies in Germany can be classified as family businesses (Wolter & Sauer, 2017). Besides, family businesses employ 57% of all employees in Germany and generate 49% of the total turnover (Gottschalk et al., 2017). The numbers might vary due to various definitions of family firms (see below for more details). So far, no common definition could be found, and family firms can vary in terms of size from small with only one or a few employees to huge companies such as Wal-Mart, Volkswagen, Ford, or BMW.

There are many definitions of family businesses, and unfortunately, no unanimous definition has yet been established in the literature (Chua et al., 1999; Sharma, 2004). In family businesses research, there are at least 30 definitions (O’Boyle, Pollack, & Rutherford, 2012). A common definition of family businesses is important for comparing different studies and data. In their paper, Chua et al. (Chua et al., 1999) analyzed the various definitions of family businesses. Table 2 presents a selection of currently key definitions.

**Table 2: Overview of Selected Family Business Definitions**

<b>Author</b>	<b>Type</b>	<b>Definition</b>
(Barnes & Hershon, 1976, p. 106)	Involvement	<i>“Controlling ownership is rested in the hands of an individual or of the members of a single family.”</i>
(Lansberg et al., 1988, p. 2)	Involvement	<i>“...a business in which members of a family have legal control over ownership”</i>
(Handler, 1989, p. 262)	Involvement	<i>“...an organization whose major operating decisions and plans for leadership succession are influenced the family members serving in management or on the board”</i>
(Leach et al., 1990) quoted by (Chua et al., 1999)	Involvement	<i>“...a company in which more than 50 percent of the voting shares are controlled by one family, and/or a single family group effectively controls the firm, and/or a significant proportion of the firm's senior management is members from the same family”</i>
(Tagiuri & Davis, 1996, p. 199)	Involvement	<i>“...organizations where two or more extended family members influence the direction of the business through the exercise of kinship ties, management roles, or ownership rights”</i>
(Donnelley, 1964)	Involvement and Essence	<i>“...a company is considered a family business when it has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and the objectives of the family.”</i>
(Churchill & Hatten, 1997, p. 54)	Involvement and Essence	<i>“What is usually meant by “family business,” however, and the factor, which most sharply differentiates family from owner-managed businesses, is either the occurrence or the anticipation that a younger family member has or will assume control of the business from an elder.”</i>

Source: Own illustration following Chua et al. (1999).



This short list of definitions illustrates the range of criteria from elementary to multiple conditions that have to be fulfilled. The definitions differ in their components and hence can be divided into the “involvement” and the “essence” approach (see Table 2) (Basco, 2013; Chrisman, Chua, & Sharma, 2005). The involvement approach includes components such as shares of the company held by the family and the influence of the family on the company through management participation (Barnes & Hershon, 1976; Chua et al., 1999; Handler, 1989; Lansberg et al., 1988; Leach et al., 1990; Tagiuri & Davis, 1996). The essence approach, in contrast, embraces the idea of a self-definition as a family business (Chua et al., 1999), the willingness to hand over the family business from one generation to another (Chrisman et al., 2005; Churchill & Hatten, 1997; Donnelley, 1964; Kotlar, Signori, De Massis, & Vismara, 2018), or the family culture in the company (Astrachan et al., 2002). In their study, Chua et al. (1999) analyzed a large number of definitions and concluded that it was necessary to combine both the involvement and the essence approaches to be able to define family businesses. In the end, they offered the following definition for family businesses: “Business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families (Chua et al., 1999, p. 25)”.

Based on these discussions, this dissertation uses a rather narrow definition that includes three major dimensions: (a) *the firm must be self-assessed as a family firm*, (b) *the family must hold at least 50 percent of the shares*, and (c) *at least one family member must be involved in managing the firm* (Chua et al., 1999). Moreover, for the two studies on information asymmetries in the succession process, the family firms were expected to have been preparing for succession, be involved in an ongoing succession process, or have already completed a succession process. Thus, the involvement and essence approaches were combined for these studies to facilitate identifying family businesses more precisely in the surveys.

### **2.3 Familiness**

To describe and study the influence of the family on the company, researchers have been using the concept of familiness for several years (Frank et al., 2017; Habbershon & Williams, 1999). Currently, familiness is an increasingly popular topic within the family business research stream (Basco, Calabrò, & Campopiano, 2018; Moores, 2009; Sharma, 2008; Weismeier-Sammer, Frank, & von Schlippe, 2013). Familiness is spelled in two different ways. On the one hand, “familiness” (Habbershon & Williams, 1999) and on the other hand “familyness” (Kansikas & Murphy, 2011; Zellweger & Mühlebach, 2008). This dissertation uses the original and more common spelling “familiness” (Daspit, Long, & Pearson, 2018; Frank et al., 2017).

It is important to define the term familiness more precisely, mainly because it should not be thought that it equates with or is embedded in the definition of a family business. The concept of familiness is still fuzzy at the moment (Frank et al., 2010; Moores, 2009). The context, conditions of use, limits, and possibilities of the concept are still under development and are currently being debated (Weismeier-Sammer et al., 2013). The following table shows the most commonly used definitions and theoretical bases of familiness.

**Table 3: Underlying Theoretical Foundations of Familiness**

<b>Theory</b>	<b>Definition</b>	<b>Authors</b>
Resource-based view	Familiness as “the unique bundle of resources a particular firm has because of the systems interaction between the family, its individual members, and the business’s” (Habbershon & Williams, 1999, p. 11)	(Habbershon, 2006; Habbershon & Williams, 1999; Habbershon, Williams, & MacMillan, 2003; Irava & Moores, 2010; Sirmon & Hitt, 2003; Tokarczyk, Hansen, Green, & Down, 2007)
New Systems theory	“Familiness ... as the result of the specific regulation of the interplay of different systems in an overall context (with familiness and enterpriseness as the two different reference points of the analysis).” (Frank et al., 2010, p. 129)	(Frank et al., 2017, 2010; Weismeier-Sammer et al., 2013)

For the explanation of the familiness concept, two predominant theoretical approaches exist: The resource-based view (RBV) and the new systems theory (Weismeier-Sammer et al., 2013). The resource-based approach considers as resources “all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Barney, 1991, p. 101).” Because companies have different resource bundles at their disposal, which are unique in their combination (Habbershon & Williams, 1999), there is a possible competitive advantage (Barney, 1991). A resource should be valuable, rare, intangible, and non-substitutable in comparison to and for the company’s competitors (Barney, 1991). Habbershon and Williams (1999) refer to the resources that a company can provide through family ownership as those resources that only family businesses can have through family involvement. Out of this perspective, it is an additional kind of resource only family businesses have.

In the systems theoretical perspective, the family business is seen as a system of different overlapping subsystems. An example of this is the three-circle model according to Tagiuri and Davis (1996) in which family, ownership, and business overlap and influence each other. Frank et al. (2017) went a step further and built their comprehension on the new systems theory. The new systems theory defines a social system already by the communication of its participants (Luhmann, 1995). Building on that understanding, Frank et al. (2017) argue that the familiness is represented by the underlying decision-making premises of the family, ultimately influencing the decisions in the firm; these decision premises are determined by the family influence on the company (Frank et al., 2017).

There are many other overlaps with further theories and research streams, such as agency and stewardship theory (Habbershon, 2006; Moores, 2009) or behavioral dynamics in top management teams (Ensley & Pearson, 2005). In the context of the agency and stewardship perspective, it is primarily discussed that agency costs are lower in family businesses due to altruistic behavior within the family firm. Familiness is used here more as an explanatory approach (Habbershon, 2006; Weismeier-Sammer et al., 2013). In the context of familiness, behavioral dynamics in top management teams are used to explain how family members create particular synergies in the top management team of a family business (Ensley & Pearson, 2005). However, these research streams hardly serve as a theoretical foundation for familiness; they are somewhat further influences or overlapping theories with familiness.

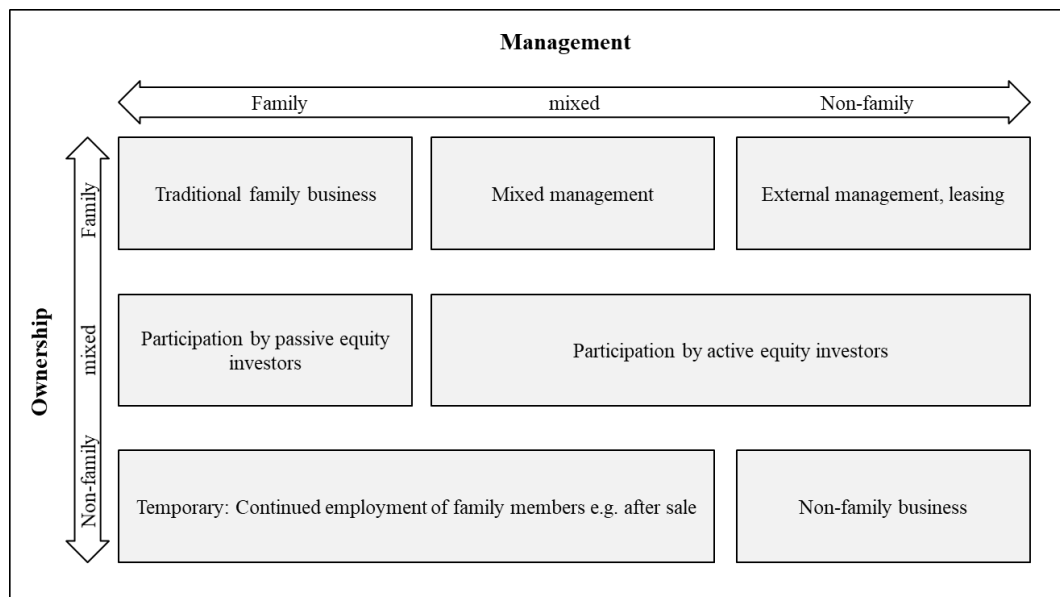
## **2.4 Family Business Succession**

As noted earlier, the process of succession is of special interest because it represents a critical point in the life cycle of a company. It is a complex and mostly long-term process (Le Breton-Miller et al., 2004) during which a variety of problems may arise (Handler, 1994; Miller et al., 2003).

Business succession is the process of transferring the management and/or ownership of a business from one person or a group of persons to another (Le Breton-Miller et al., 2004). Most studies initially only referred to the transfer of

management and not necessarily to the transfer of ownership. Both transfers are usually carried out step by step and over an extended period of time (Le Breton-Miller et al., 2004; Nordqvist, Wennberg, Bau', & Hellerstedt, 2013). Intrafamily business succession is unique and must be distinguished from other succession types. Figure 3 illustrates the various management and ownership succession compositions.

**Figure 3: Types of Business Succession**



Source: (Felden, Hack, & Hoon, 2019).

The figure suggests that, in terms of management succession and ownership succession, a distinction can be made between succession within the family and succession outside the family, which yields a large number of possible combinations. In traditional internal family succession, both ownership and management are transferred to one or more internal family successors. The classic succession is where one child succeeds one parent; however, a variety of other options also exist, such as team succession of several children or more distant relatives (Gersick et al., 1997). If ownership remains in the hands of the family, and non-family managers are employed, ownership and management will fall apart. In this situation, the firm can be considered as externally managed. Interim solutions whereby external managers temporarily manage the company until a family member takes over in the future (Scholes, Westhead, & Burrows, 2008) also fit this

category. Various mixed forms reside in between whereby external managers cooperate with family members in the management team. Some variations in the ownership composition are also conceivable. For example, when ownership is not in the hands of the family, the family members may still play an active role in the management of the firm (e.g., after the sale of the firm). If the last members of the family leave the management of the company and the ownership is completely family external, it is no longer a family business at all. However, often, financial investors or banks own shares of the firm, causing the firm to be categorized between full family ownership and third-party ownership with passive or active management participation of the investors. Nevertheless, research shows that family businesses prefer intrafamily succession (Salvato, Minichilli, & Piccarreta, 2012). This dissertation focuses on intrafamily business succession without discussing other forms or including them in the analysis.

Two predominant models describe the succession process. The first model is Le Breton Miller et al.'s (2004) "Integrative Model for Successful Family Owned Business Successions," which is based on the predominant topics from the succession literature as best practice model. In this model, the authors try to map the succession process as comprehensively as possible and include all conceivable influencing factors. The actual succession process is divided into four parts. It begins with the determination of ground rules and the initial steps whereby succession is first planned and structured, and successor selection criteria are determined. The second part deals with the development and monitoring of the successors. Part three presents the selection process whereby the successor is finally selected from the pool of trained successors. This selection is made according to specific criteria determined in advance. In this model, the handover process ends with the exit of the predecessor and the entry of the successor and the transfer of ownership (Le Breton-Miller et al., 2004).

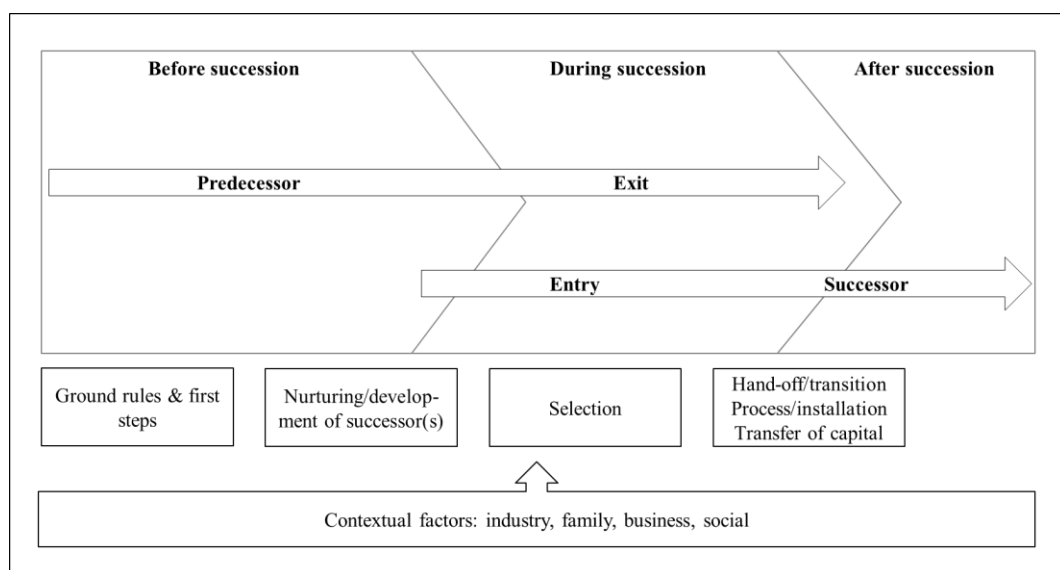
Nordqvist et al. (2013) examined the succession process from an entrepreneurial process perspective. In their model, the authors divide the process into four steps whereby the company is founded, operated, and handed over, followed by a post-succession phase. They argue that the entrance of the successor and the exit of the

predecessor present the company with many opportunities. Besides the fact that the entrepreneurial process perspective is the main interest of Nordqvist et al.'s (2013) study, the researchers also showed how important it is to include in succession research both management and ownership succession forms as well as the exit of the predecessor.

Both models additionally point out various contextual factors, such as industry, company, the family itself, and the social environment that can influence the succession process (Le Breton-Miller et al., 2004; Nordqvist et al., 2013).

Figure 4 shows a combination of both succession process models. It is particularly evident that the transition phase between predecessor and successor overlaps and often takes a more extended period of time. To reduce complexity and establish clear boundaries between the phases, this dissertation divides the succession process into three phases: before, during, and after succession. It is easier to separate the phases by facts, such as the entry of the successor into the firm and the transfer of management by the predecessor; these help in identifying the start of the successor's development process, which could, to some degree, already lie in childhood.

**Figure 4: Business Succession Process Model**

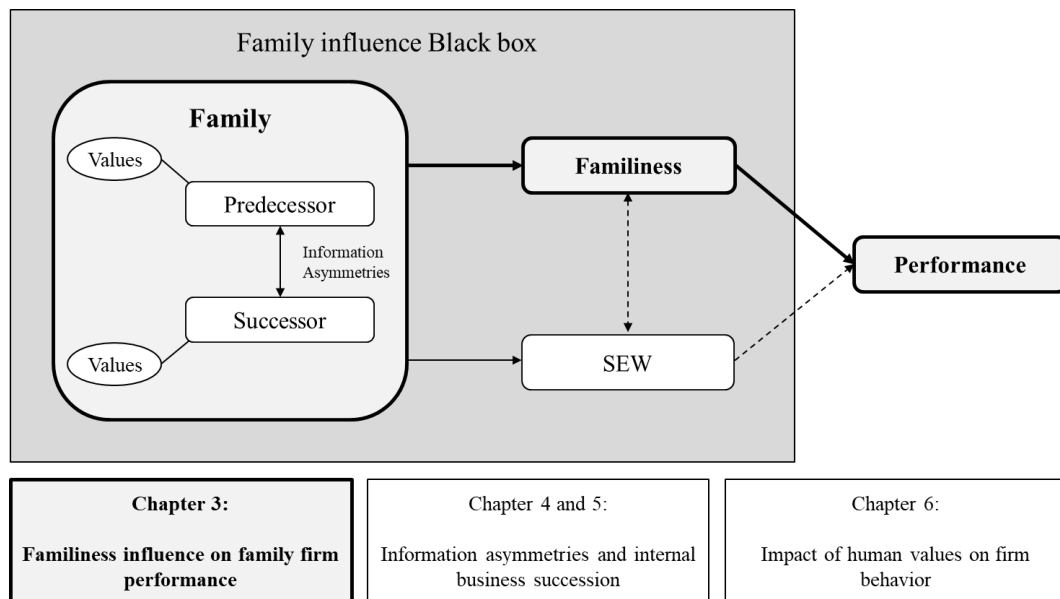


Source: Own illustration following (Le Breton-Miller et al., 2004; Nordqvist et al., 2013).

As figure 4 shows, the “before” phase comprises the definition of the basic rules and the first steps of the nurturing and development process. In the “during” phase, the development process is taken further where the final selection of the successor takes place. The entry into the company can take place or could have already taken place during the development process. The “after” succession phase begins with the complete management transition to the successor of the company and also includes the withdrawal of the predecessor from the company and the transfer of the shares to the successor. In this dissertation, the focus is on management succession. The three phases are relevant to the chapters analyzing information asymmetries in the family business succession process.

In the following chapter, the influence of family on the family business through familiness and, in particular, on the performance of the company will be examined in detail.

**Figure 5: Interaction of the key elements: Family, Familiness and Performance**



Source: Own illustration.



### **3 Is Family Influence Always Beneficial? How Family Ownership, Family Leadership and Family Culture Influence the Firm Performance<sup>2</sup>**

#### **ABSTRACT**

Previous studies have often focused on the special culture of family businesses that emanates from the owner family. However, empirical research on the impact of the owner family on the firm is still scarce. This paper contributes to the ongoing research by filling this gap, investigating how family influence impacts firm performance. Therefore, a survey with validated scales for the measurement of the family influence and performance measurement was executed. To measure family influence, we used the new Family Influence Familiness Scale (FIFS) and the established F-PEC scale, which was previously used to measure family influence. Thus, an evaluation of the new FIFS was possible by comparing it to the F-PEC scale. The data from 558 German family firms reveal that there are diverse influences of family ownership and family business culture on these firms, but not all of these influences are beneficial for firm performance. Positive effects are, for example, transgenerational orientation and the family-employee bond, while the concentration of ownership, management and control in the hands of the family has a negative impact on firm performance.

Keywords: Family Firms, Family Firm Performance, Family Influence, FIFS, F-PEC

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### **3.1 Introduction**

Family business is considered of special research interest because it is one of the most common kinds of businesses in the world and, thus, an important economic driver (Astrachan & Shanker, 2003; Gersick et al., 1997; Sharma et al., 2012). According to a recent study, the share of family businesses of all companies in Germany is 93.6%, which is extremely high (Wolter & Sauer, 2017). These family firms not only account for the majority of companies but also employ most of the employees and generate almost half of all revenue in Germany (Haunschild & Wolter, 2010). The question of how family firms differ from nonfamily firms is the subject of many studies within the family business research stream (Anderson & Reeb, 2003; Chrisman et al., 2004; Chrisman, Chua, & Steier, 2002; Chua et al., 1999; J. Lee, 2004, 2006; McConaughy, Matthews, & Fialko, 2001; Westhead & Howorth, 2006). Most of the reviewed studies conclude that family businesses outperform non-family businesses, e.g., in key monetary figures such as return on investment (Anderson & Reeb, 2003; Chrisman et al., 2002; J. Lee, 2004, 2006). Furthermore, family firms show that “they even have greater value, operate more efficiently and carry less debt than non-family businesses” (McConaughy, Matthews, & Fialko, 2001, p.31). However, it is necessary to note that there are also studies that cannot find such a superiority of family businesses over non-family businesses (Chrisman et al., 2004; Westhead & Howorth, 2006). While the differences between family firms and non-family firms are still up for discussion, the main influence that drives these differences is rather clear: the influence of the owner family on the firm (Chua et al., 1999, 2012; Nordqvist et al., 2014).

However, most of these studies focus on the mere comparison of family and non-family businesses (for an overview, see Rutherford, Kuratko, & Holt, 2008). In this study, we would like to take a different approach. Instead of focusing on the question of how non-family firms and family firms differ from each other, we would like to focus on the question of what makes a family firm more or less successful. Therefore, we will take a closer look at the special characteristics and the special influence of the family on firm performance. Additionally, the phenomenon of there being very old, successful and sustainable family firms, while at the same time a

large number of companies do not reach the next generation, is worth mentioning (Kets de Vries, 1993). As survival and performance are closely intertwined, the investigation of the influences resulting from the family on the background of the firm, the familiness, might contribute to entangling the reasons for the long-term survival of family firms (Wilson, Wright, & Scholes, 2013), in addition to the already known problems related to succession (Ward, 1988) or family conflicts (Eddleston & Kellermanns, 2007). Studies have already theoretically shown that it is possible, within the framework of the resource-based view, to consider the family as a kind of resource for a business (Habbershon et al., 2003). Other researchers have expanded this model by adding the family firm identity (Zellweger, Eddleston, & Kellermanns, 2010).

In a first attempt to measure family influence on firms, Rutherford et al. (2008) used the F-PEC questionnaire to shed light on the connection between family involvement and firm performance. The results of this study are rather mixed and do not allow for clear conclusions. Although there have been attempts in the literature, this research gap could not be filled so far, especially due to missing measurement methods (Oswald et al., 2009). Therefore, the extant results can at best be described as vague. This paper, therefore, addresses the following research questions:

*How does familiness influence firm performance in family businesses? Which parts of familiness are more or less fruitful for firm performance?*

To answer these questions, a literature review was conducted, and a survey was constructed using the Family Influence Familiness Scale (FIFS) (Frank et al., 2017), the Family – Power, Experience, Culture (F-PEC) scale (Astrachan et al., 2002) and validated performance indicators. While proper methodical tools to measure the familiness of firms have not been available so far, the new FIFS offers the opportunity to test the influence of familiness on firm performance quantitatively. A survey of 558 German family businesses was conducted in 2017. The results were examined by employing an ordinary least squares (OLS) regression analysis to answer the research questions.

This article contributes to the family business literature in the following ways. First, our empirical study is the first to use a validated scale to measure familiness and connect this measurement with firm performance. Thus, we can distinguish which dimension of family influence has an impact on firm performance and how strong this impact is. Second, we follow the call of Frank et al. (2017) that there is further work to be done in validating the FIFS (Frank et al., 2017). Frank et al. developed the FIFS in 2017 and validated it in Austria. We are the first to test and validate the scale using a large German sample. Finally, through the additional use of the F-PEC scale by Astrachan et al. (2002), in the same way as Rutherford et al. (2008), we can display how the FIFS works in contrast to recent attempts to measure familiness, and we are able to prove the robustness of our results.

The paper is structured as follows. It begins with a theoretical overview of the existing knowledge on the influence of familiness on firm performance. In particular, we focus on family ownership, family leadership, family culture and performance measurements. Consequently, the theoretical background is used to formulate hypotheses about the connection between familiness and performance. The methodology section is introduced by presenting the descriptive data of our sample. Next, the results of the OLS regression on the connection between familiness and firm performance are described. The findings are then discussed, and implications for practice and research are derived. Finally, the limitations of the study and areas for future research are presented.

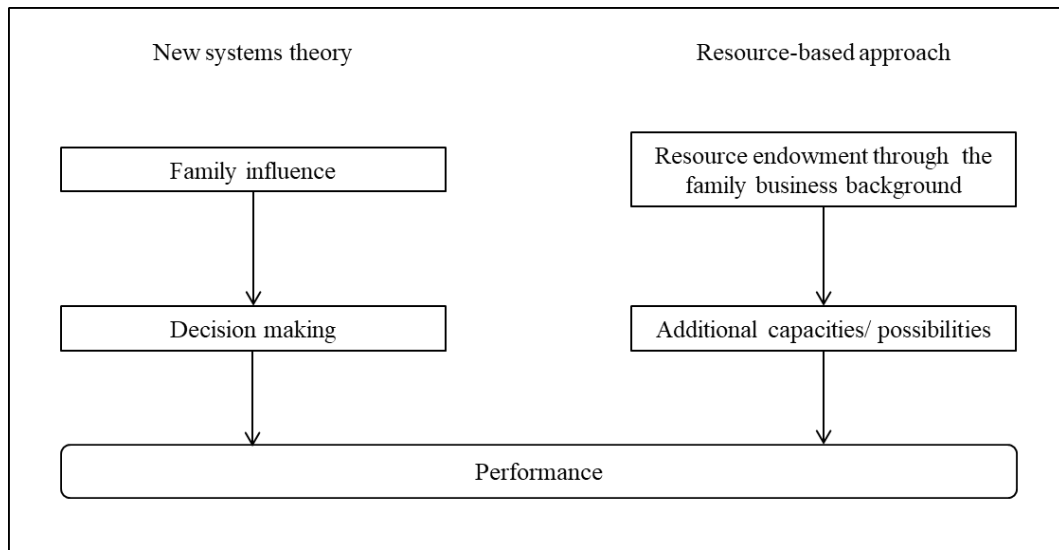
## **3.2 Theoretical Background**

***Familiness.*** Habbershon and Williams defined familiness as “the unique bundle of resources a particular firm has because of the system interaction between the family, its individual members, and the business” (Habbershon & Williams, 1999, p. 11). According to their definition, familiness is a unique resource that a family firm has. The authors attempted to make the resource familiness measurable and developed a system that also considers negative or limiting factors by integrating negative resources into their model. In doing so, they consider the fact that familiness as a resource is initially seen as positive, which can lead to the problem in which

theoretically negative influences could be negated, although restrictive characteristics have already been observed to emanate from familiness in the firms (Habbershon & Williams, 1999). To address this issue, Habbershon et al. (1999) developed a framework that shows that familiness and family involvement are a double-edged sword. They introduced the concept of "distinctive familiness", which consists of special family-based resources or capabilities that have a positive influence, and the concept of "constrictive familiness", which consists of limitations in the family business context (Habbershon et al., 2003). Chrisman et al. (2012) used the resource-based approach to explain familiness, splitting it into two dimensions, namely, "family involvement" and "family essence". Family involvement sets the involvement in ownership, management or control as the minimum criterion for familiness. Family essence includes the behavior and special resources of the firm that exist due to the family business background. Zellweger et al. (2010) added family firm identity to the involvement and essence of familiness. They argue that family firm identity should be added to measure the influence of the family. The identity of the family firm represents how the family views and defines the company; it reflects the family's attitude toward the company (Zellweger et al., 2010). All these extensions were intended to draw a more accurate picture of the influence of the family on the firm. However, these are theoretical extensions that can help build a theoretical model that displays the influence of familiness and the parts of which it consists, but there is still a lack of suitable measurement systems to statistically test these models.

Frank et al. (2017) approached the topic from a different theoretical perspective and based their FIFS on the new systems theory. In their view, familiness are underlying decision premises, which are determined by the family influence on the company (Frank et al., 2017). The company is seen as a social system, which is formed by the communication among participants (Frank et al., 2017; Luhmann, 1995). Figure 6 displays the two main approaches to explain familiness, their context and their possible influence on the family firm's performance.

**Figure 6: Family Business Influence**



Source: Own illustration.

Both approaches are theoretically well-grounded, understandable, and comprehensible. On the one hand, the resource-based view fits well because the family and, for example, its knowledge and social capital can be seen and used as unique resources for the company (Habbershon et al., 2003). However, it is argued that familiness cannot really be controlled or changed in a way similar to that of other resources in the company; rather, it is a given situation for the company (Frank et al., 2010). On the other hand, the approach from a system-theoretical point of view fits well because it considers the particularities in the decision-making of family businesses. Here, the influence of the family, the familiness, as a decision premise, based on the characteristics of the family, is considered in the decisions of the enterprise. Since the measurement of family influence in this paper is primarily based on the FIFS, which is grounded in the new systems theory, we follow the definition that familiness are the underlying decision premises, which are determined by the family's influence on the company (Frank et al., 2017).

The FIFS consists of six subscales that include questions in the following areas: OMC - ownership, management and control; PAF - proficiency level of active family members; SOI - sharing of information between active family members; TGO - transgenerational orientation; FEB - family-employee bond; and FBI - family business identity (Frank et al., 2017).

To date, no other scales have been developed to test the family's influence only in family firms. Therefore, the F-PEC scale, which was actually developed to improve the classification of a company as a family business (Astrachan et al., 2002), has been used in some research projects to study family influence. The F-PEC questionnaire consists of three subscales: power, experience and culture. The subscale of power includes questions on the ownership, leadership, and management of the company. The subscale of experience asks about the experiences of previous generations in the company. The subscale of culture includes the fit of family and company values as well as the commitment of the family to the company (Astrachan et al., 2002).

Previous studies have been more concerned on the resources that should result from familiness (Habbershon & Williams, 1999). However, there are thus far only theoretical models on how familiness can be understood as a resource (Rutherford et al., 2008). The exact measurement of familiness is neglected in the few studies that attempt to measure its effects. Most of these studies instead deal with the comparison of family businesses and non-family businesses. Rutherford, Kuratko, and Holt (2008) aggregated the findings of 23 studies that generally investigate the relationship between family and performance; nine of these studies found a positive relationship, and four found a partial positive relationship. Nine other studies came to a neutral conclusion, and one study even found a negative relationship. However, in all of these studies, familiness was not directly measured. The studies mostly used the distinction between family and non-family business by owned shares by family members or management participation to measure familiness. Therefore, Rutherford et al. (2008) decided to use the F-PEC questionnaire by Astrachan et al. (2002) to more specifically measure the influence of familiness (Rutherford et al., 2008). In the initial study by Rutherford et al. (2008), the results were rather mixed and not conclusive. Their results show that the power subscale of the F-PEC questionnaire has no impact on firm performance. Experience showed a positive impact on sales but a negative impact on perceived financial performance. The dimension of culture showed a negative impact on the debt ratio but a positive impact on perceived financial performance. Furthermore, no significant effects on sales growth, sales per employee, or number of employees were found (Rutherford

et al., 2008). These results show that many questions remain about the connection between familiness and firm performance in family firms. Thus, we would like to take the initiative and use the newly developed FIFS to fill this knowledge gap. In this study, the units of analysis are the involved family members and the business system itself, through the influences on the business that arise from familiness. In the next part, the hypotheses derived from the literature on the influence of the individual components of familiness on firm performance are explained.

### **3.3 Hypotheses Development**

The ideas behind the following hypotheses are derived from the components of the FIFS and parts of the F-PEC scale. The first part of the FIFS concerns the ownership, management and control of the family business (Frank et al., 2017). The first subscale of the F-PEC also addresses the power of the company, which includes questions about the ownership, leadership and management of the company (Astrachan et al., 2002). Often, these dimensions are automatically set into a positive relationship with firm performance. The literature, however, shows a more differentiated perspective. Several authors state that there is a positive influence on firm performance if family members are involved in management (Charbel, Elie, & Georges, 2013; Jaskiewicz, González, Menéndez, & Schiereck, 2005; J. Lee, 2006). Furthermore, Villalonga and Amit (2006) showed that while being actively involved in the management of the firm, ownership is also positively correlated with firm performance. In a study with UK firms, a non-linear positive connection between family ownership and return on assets was found (Panikkos Poutziouris, Savva, & Hadjielias, 2015). Other studies focused on the comparison between owner-controlled firms and manager-controlled firms and concluded that owner-controlled firms perform better in terms of return on investment (Kansikas, Tourunen, & Laaksonen, 2011; Monsen, 1996). Other researchers state that the control of a firm through the family has a strong positive influence on firm performance (Allouche, Amann, Jaussaud, & Kurashina, 2008). However, there are other studies with contradictory results. They conclude, for example, that the concentration of ownership in family hands leads to lower firm performance (Oswald et al., 2009). The reasons for this could be higher risk aversion (Chrisman



& Patel, 2012; Frank et al., 2017; Naldi, Nordqvist, Sjöberg, & Wiklund, 2007), the less frequent use and reduced impact of monitoring mechanisms for family members (Gómez-Mejía, Nunez-Nickel, & Gutierrez, 2001) or altruism related to family members (Schulze, Lubatkin, & Dino, 2003). Other reasons are the potential drain of capital by the family members (Miller & Breton-Miller, 2006) and the additional management requirements in complex and large families (Gersick et al., 1997; Gimeno Sandig, Labadie, Saris, & Mendoza Mayordomo, 2006; Ward, 1997). Finally, there are studies that do not find any significant connections between family ownership and performance or family involvement in management and performance (Miller, Le Breton-Miller, Lester, & Cannella, 2007; Rutherford et al., 2008; Westhead & Howorth, 2006).

Thus, we follow the argument that through a strong focus on family ownership, control and management, limits for firm management and development options are set. This is, for example, reflected in the selection and monitoring of employees or financing opportunities, as well as the mentioned potential drain of capital by family members (Miller & Breton-Miller, 2006) and the additional management requirements in complex and large families (Gersick et al., 1997; Gimeno Sandig et al., 2006; Ward, 1997). Therefore, as a consequence, it is not beneficial for firm performance to concentrate the ownership, management and control of the firm on the family due to the mentioned connected problems with such a concentration. This leads to the formulation of the following hypothesis:

*H 1: The more ownership, management, and control of the company are concentrated on the family, the worse the firm performance.*

The second part of the FIFS concerns the proficiency level of active family members (Frank et al., 2017). The business succession literature states that the selection of family members without sufficient qualifications can be a burden to the company (Kidwell, Kellermanns, & Eddleston, 2012) and that, for example, educational requirements should be considered in successor selection (Chrisman, Chua, & Sharma, 1998; Schlepphorst & Moog, 2014). This is closely connected to the “Fredo Effect”, which emerges when incompetent, unqualified family members obtain positions in the firm for which they are not suitable and thus could harm the

success of the firm (Kidwell et al., 2012). In addition, the selection of unqualified family members or the use of special selection criteria for family members can lead to dissatisfaction or conflicts among non-family employees (Kidwell et al., 2012). Therefore, we propose that setting the same requirements for family employees and non-family employees and using an equal performance measurement lead to better firm performance.

*H 2: The more value that is attached to the equal qualifications and performance of family members compared to non-family members in the company, the better the firm performance.*

The third part of the FIFS concerns the sharing of information among active family members (2017). Information is essential to manage a firm, and thus, the exchange of information between the involved people is directly linked to firm performance (Smith et al., 1994). Ling and Kellermanns (2010) observed that the interaction and communication between the number of active family members within a firm increases firm performance. Furthermore, withholding information may cause harm, decrease performance, or, at least, increase agency costs for the firm (Zellweger & Kammerlander, 2015). Even the unintentional withholding of information can lead to mistrust or conflicts among family members (Frank et al., 2017). Thus, it can be assumed that it should have a positive effect on performance if more attention is paid to the sharing of information among family members, leading to hypothesis 3.

*H 3: The more attention that is paid to the sharing of information among family members, the better the firm performance.*

The fourth part of the FIFS concerns the transgenerational orientation (Frank et al., 2017). Family businesses usually plan for the long term and across generations (Ward, 2004; Zahra, Hayton, & Salvato, 2004; Zellweger, 2007). This orientation is observed, as family firms focus on more sustainable actions and long-term investments. Additionally, the often high equity ratios among family businesses imply a long-term orientation (Dreux, 1990; Gómez-Mejía, Cruz, Berrone, & De Castro, 2011). This sustainability approach, the long-term investments and high

flexibility, as result of high equity ratios, can lead to better long-term performance for a firm (Lumpkin & Brigham, 2011; Miller & Le Breton-Miller, 2005). Another important factor that is unique to family firms is the succession process, as part of this long-term orientation (Handler, 1994). As family firms could fail due to failed successions, the early planning of such succession could foster successful firm continuity (Le Breton-Miller et al., 2004; Sharma, Chrisman, Pablo, & Chua, 2001) and thus positively influence firm performance. Wang, Watkins, Harris, and Spicer (2004) showed, in a first statistical test with data from the United Kingdom, that there is a partial positive relationship between succession planning activities and performance measures for medium-sized business regarding two of six performance measures. Therefore, it can be assumed that long-term thinking, early succession planning, long-term investments and high equity ratios lead to sustainable decisions and more flexibility, resulting in better firm performance. Hence, the following hypothesis has been formulated.

*H 4: The more thought in generations and deliberated about the transfer to the next generation, the better the firm performance.*

The fifth part of the FIFS concerns the family-employee bond (Frank et al., 2017). The family business culture and the flatter hierarchy in family businesses can lead to a better bond between the family and employees. This is due to the responsiveness of the owner family to the needs of its employees. Thus, employee positions are created for the long term, development possibilities are given, and the contact between the owner family and employees remains close (Frank et al., 2017). Therefore, employees can develop a stronger commitment to the company and better identify themselves with business goals because they can feel as if they are an essential part of the family business system. Additionally, Sieger et al. (2013) measured whether psychological ownership influences firm performance. They found positive results, and we thus conclude that the increased psychological ownership of employees to the firm increases performance as well. Moreover, it is possible that the flatter hierarchy and closeness between the family and employees will allow for some type of participative leadership to be practiced and thus integrate the employees more strongly in the decision-making process. Participative

leadership can also increase the commitment of employees and have a positive effect on employee satisfaction, which in turn has a positive effect on firm performance (Sorenson, 2000). Therefore, the following hypothesis is formulated:

*H 5: The stronger the bond between the family and employees is promoted, the better the firm performance.*

The last part of the FIFS concerns the family business identity (Frank et al., 2017). Family businesses can attempt to use their special characteristics as a family business in presentations, reputation building and, thus, marketing (Astrachan Binz, Botero, Astrachan, & Prügl, 2018; Lude & Prügl, 2018). These unique characteristics of family businesses are, for example, the special culture that prevails in family firms (Astrachan Binz et al., 2018; Astrachan et al., 2002), such as the flatter hierarchical structure or the long-term orientation of the firm (Ward, 2004; Zahra et al., 2004; Zellweger, 2007). A company can also be perceived as more authentic by promoting their family business background, as Lude and Prügl (2018) show. It is conceivable that family businesses could attract new employees, customers or other stakeholders in this way. Studies have found a positive effect of the family firm image on the performance of the company (Memili, Eddleston, Kellermanns, Zellweger, & Barnett, 2010; Zellweger, Kellermanns, Eddleston, & Memili, 2012). Additionally, Gallucci, Santulli, and Calabrò (2015) have shown in their research that the combination of family involvement in management and the marketing of the family as a corporate brand has a positive impact on the rate of sales growth. In summary, the following hypothesis is proposed:

*H 6: Presentation and marketing as a family business have positive influences on firm performance.*

The last two hypotheses are derived from the questions of the F-PEC questionnaire. Due to the similarities between the FIFS dimension of ownership, management, and control and the power dimension of the F-PEC scale, this first dimension of the F-PEC questionnaire has already been used in the first hypothesis. Thus, in the following, the focus is placed on the dimensions of experience and culture.

Some studies have already attempted to examine the influence of previous generations on family firm performance. Thus far, however, only vague connections between the generation and the performance of family firms have been found (Chirico, Sirmon, Sciascia, & Mazzola, 2011; Miller et al., 2007; Panikkos Poutziouris et al., 2015; Rutherford et al., 2008; Wang et al., 2004). We argue from the succession perspective. The selection and development of an internal successor is an intergenerational process. Thus, an internal successor learns a great deal about the firm and its management from the earlier generations of family members who worked in the company (Cabrera-Suárez et al., 2001; Le Breton-Miller et al., 2004). This learning process can take place outside the company during childhood, as the company is often a relevant issue in family life, and succession development often begins in childhood (Cabrera-Suárez et al., 2001; Le Breton-Miller et al., 2004; Tagiuri & Davis, 1996). Ling and Kellermanns have shown that later on in a firm, the number of employed family generations can have a positive effect on the number of employees and firm performance if the frequency of information exchange in the top management team is high (Ling & Kellermanns, 2010). The idea of an influence through experience is also connected with the selection of the successor, explained in H2, and with the long-term planning and development of a successor, explained in H4. In summary, we assume that the experiences of earlier generations in a family firm should have a positive influence on firm performance.

*H 7: The experiences of previous generations have a positive influence on firm performance.*

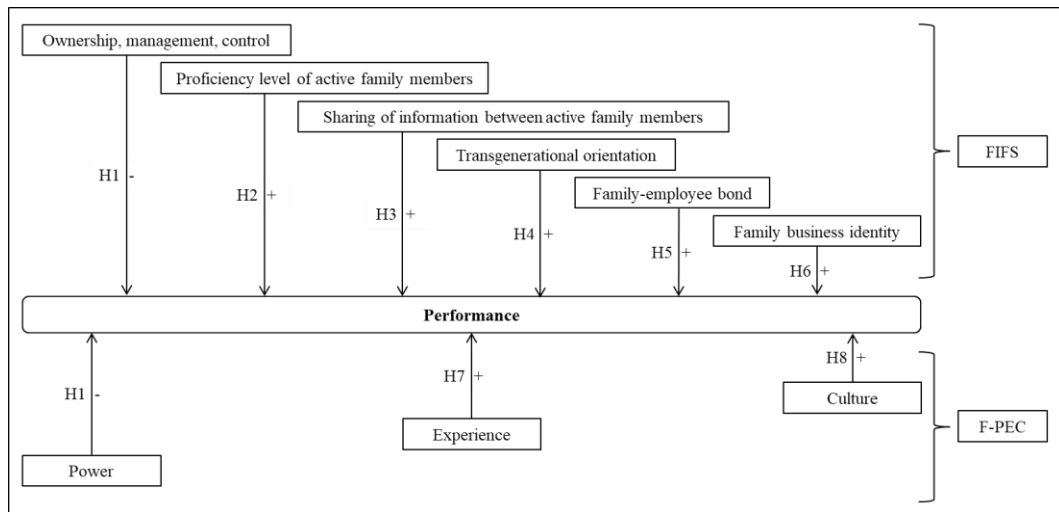
Within the F-PEC, culture is the largest subscale, which leads to the following considerations. The matching of family and company values is important for the commitment of family members to the company. The better the match between the values of the family and the company is, the more family members can identify with the company, resulting in higher commitment. This higher commitment of family members leads to better firm performance (Habbershon & Pistrui, 2002). The better the values match between company and family is, the easier it is for family members to live by these values and accept and uphold the company culture. At the same time, values can be communicated more convincingly, which in turn

can lead to a positive effect on firm performance. Conversely, conflicts that can be caused by the lack of fit between family and firm values are conceivable. This problem would be both more likely and more problematic as more family members have to actively work in the company and deal with a discrepancy between family and company values. Ward et al. (2004) state that a professionalization of dealing with the adjustment of values through family meetings, to define the mission, family values, and motivations of the firm, is possible and leads to long-term family business growth (Ward, 2004). These considerations are closely linked to the literature on goal alignment in family firms. It has been shown that goal alignment is an important topic for family businesses because of the number of involved people, overlapping systems such as family, ownership and business, and personal goals and social interactions (Aparicio, Basco, Iturralde, & Maseda, 2017; Kotlar & De Massis, 2013; Pieper, Klein, & Jaskiewicz, 2008). We argue that values directly influence personal goals and that a better match of values among the involved people and between personal and business values lead to more consistent goals, which are easier to align.

*H 8: The more the family and firm values match, and the more the family is committed to the company, the better the firm performance.*

In figure 7, an overview of all mentioned hypotheses and their assumed relationships is shown.

**Figure 7: Hypotheses**



Source: Own illustration.

### 3.4 Methodology

**Data Source.** To test our hypotheses, we decided to gather data via a survey. To do this, 10000 companies in Germany, Austria, and Switzerland were contacted via e-mail in 2017. The e-mail addresses were, with the following restrictions, chosen randomly out of the Amadeus database. We restricted the drawing in the following way: the companies had to exist for at least 10 years, as younger companies are less likely to see themselves as family businesses (Zellweger, Nason, & Nordqvist, 2012); legal forms that do not represent family businesses were excluded; and a minimum of five employees in 2014 was set to exclude companies that are too small. A total of 1587 questionnaires were completed. All relevant missings and outliers that could be identified as input errors were excluded. To analyze only family businesses, a filter was applied. This filter presupposed the self-assessment as a family business; at least 50 percent of the shares must be held by the family, and at least one family member must be involved in the management of the firm (Chua et al., 1999). We chose to use a definition that is closely connected to that of Frank et al. (2017) but decided to add the restriction that more than 50 percent of the shares need to be held by the family. Furthermore, we asked for the position of the respondent, and only respondents who were actively engaged in management and, at the same time, were part of the family were included in our final sample.

Frank et al. (2017) also included answers from family members from other positions in their sample. These restrictions resulted in 558 cases without any missing values for the relevant variables.

To test for non-response bias, we analyzed whether the responses of the first respondents differed from those of the last respondents. To do this, we sorted the dataset by the return date and divided it into three parts. Regarding our explanatory variables, we found no statistically significant differences between these three parts of the sample (Armstrong & Overton, 1977; Chrisman et al., 2004; Dehlen et al., 2014). To assess the extent of the representativeness and sample selection bias, we randomly selected the survey participants. Additionally, we compared the descriptive data of our dataset with the descriptive data of other studies on family firms. The average age of the firms in our dataset was 60 years and is comparable to other datasets of German family businesses. The companies in the dataset of Sieger et al. (2013) had an average age of 75 years, and those in the dataset of Dehlen et al. (2014) had an average age of 62 years. The average ages of the owner-managers are comparable as well. In our dataset, the age is on average 51.27 years, which is in accordance with other studies showing similar results of 45 years (Dehlen et al., 2014), 46 years (Sieger et al., 2013) and 51 years (Zellweger, Kellermanns, Chrisman, & Chua, 2012). In addition, 73% of respondents were male, which is comparable to another study, with 71% male respondents (Sieger et al., 2013).

As our study is the first to validate the FIFS in a different context, we will show some data for comparison in the following section. The corresponding values from the study by Frank et al. (2017) are shown in brackets. Regarding the size of the companies in our sample, 28.9% (38.9%) can be described as micro, 48.9% (52.4%) as small, 17.9% (8.3%) as medium-sized and 4.3% (0.4%) as large businesses (European Commission, 2003). Thus, the companies in our sample tend to be larger, which is typical in the German context. The businesses also show a similar distribution of generations: 31.5% (37.3%) are in the first generation, 32.3% (31.8%) are in the second generation, 19.0% (22.5%) are in the third generation, 11.1% (4.9%) are in the fourth generation, and 6.1% (3.5%) are in the fifth



generation or higher. The economic sectors were defined differently; in contrast to our study, Frank et al. (2017) made multiple selection possible. Thus, it can be said that 33.5% (28.5%) of companies are in the production sector, 50.5% (65.4%) are in services, and 16% (43.4%) are in other sectors.

Regarding the potential of common method bias, we designed the questionnaire and the order of the questions in a way that the respondents' answers were not influenced by the researchers' underlying expectations (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). Additionally, we assured the anonymity of all respondents to reduce a possible social desirability bias (Podsakoff et al., 2003). Furthermore, we performed a Harman one-factor test (Podsakoff & Organ, 1986). An exploratory factor analysis for the models with the items from the FIFS led to a 5-factor solution with Eigenvalues greater than one. Taken together, these factors explain 63.29% of the total variance. The first factor explains 21.98% of the variance, which provides first evidence that common method bias is not a concern in our study because no single factor explains the majority of the variance.

***Dependent Variables.*** In this study, we focus on firm performance as the *dependent variable*. To measure this performance, different considerations are made. Performance is multidimensional, and even a simple division into financial and non-financial success (Olson et al., 2003) reveals that the measurement of success is not trivial. In most cases, performance is measured using key figures. This type of direct data acquisition is often difficult (Love, Priem, & Lumpkin, 2002) due to the sensitivity of the data.

However, the self-assessment of company performance comes very close to measuring performance and therefore can be used equivalently if key figures are not available (Dess & Robinson, 1984; Eddleston, Kellermanns, & Sarathy, 2007; Love et al., 2002). Therefore, we measure, in addition to key figures, the performance of the respondents via self-assessment, using a total of 13 questions. The respondents had to rank the performance of their companies compared to that of their competitors over the last three years on a 5-point Likert scale, ranging from "much worse" to "much better". The factors were sales; revenue; net profit margin; market share; number of employees; customer satisfaction; product/service

innovation; process innovation; adoption of new technology; product/service quality; and product/service variety (Eddleston et al., 2007; Naldi et al., 2007; Smolka, Verheul, Burmeister-Lamp, & Heugens, 2016; Wiklund & Shepherd, 2003, 2005). All these items for measuring performance have been used in many previous studies and provide a common basis for the analysis (Eddleston et al., 2007; Naldi et al., 2007; Smolka et al., 2016; Wiklund & Shepherd, 2003, 2005). To obtain a meaningful overall picture with an analysis that is both robust and comprehensive in terms of performance, we have composed an index using these performance variables. Therefore, the mean of respondents' ranking on the thirteen performance scales was calculated and equally weighted. The reliability of the performance index was tested using Cronbach's alpha and was good, with a value of 0.871. This performance index is used in regression models 1-3.

To further validate this indicator and the results of the regression models, two additional performance measures were used as dependent variables. First, an overall picture of company performance was collected based on an additional self-assessment. Here, the respondents indicated, again on a 5-point Likert scale, ranging from "not successful at all" to "very successful", how successful the company is at the moment, in general (models 4-6). Second, we used the key figure *total sales* from the last year in million euros as an additional performance measure. In the regression models, we used the natural log of sales because the distribution of the values was skewed (models 7-9) (Wennberg, Wiklund, Hellerstedt, & Nordqvist, 2011).

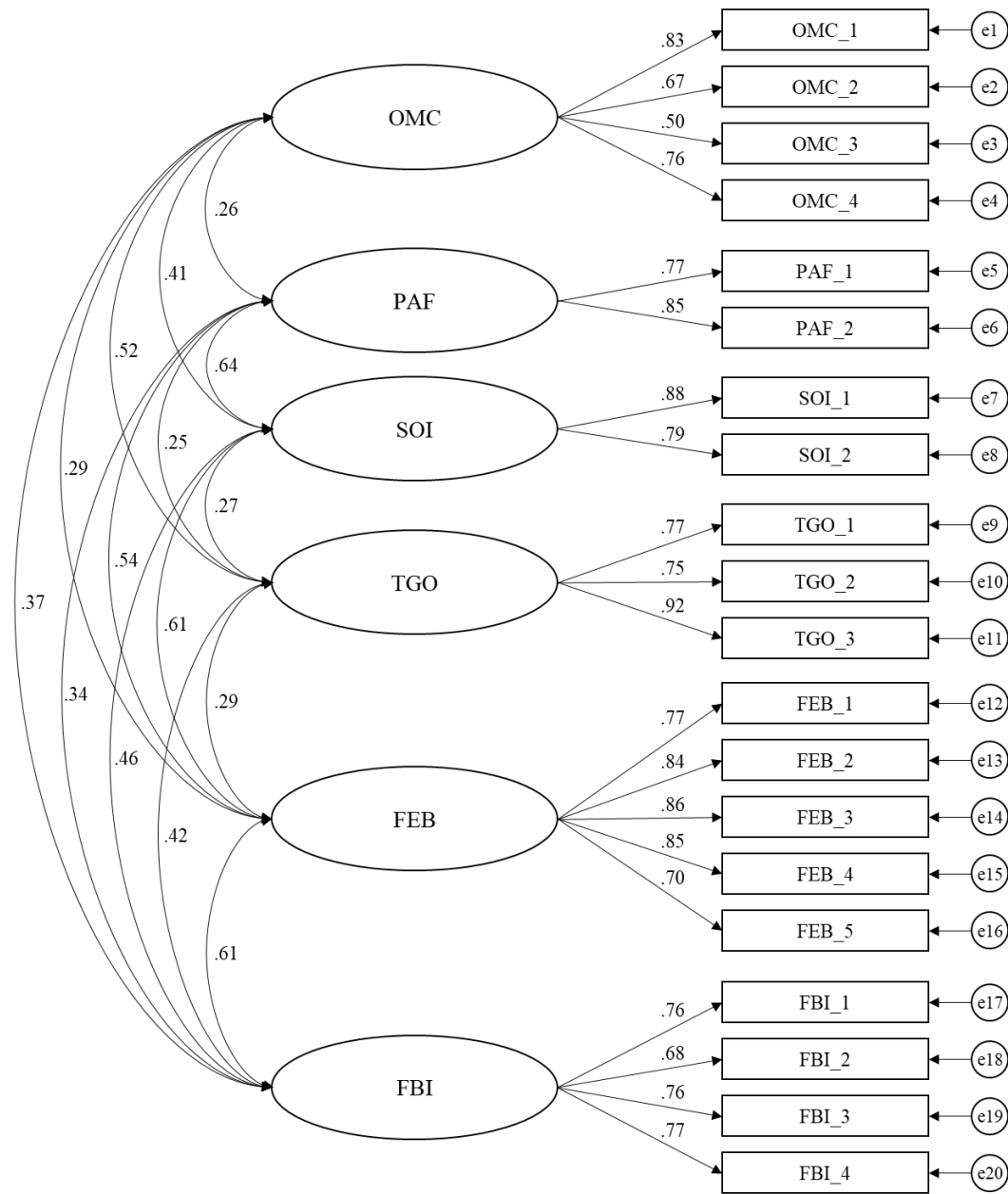
***Independent Variables.*** Two approaches were used to measure the impact of the family on firm performance: the Family Influence Familiness Scale (FIFS) by Frank et al. (2017) and the F-PEC scale of Astrachan et al. (2002).

The FIFS by Frank et al. (2017) was developed based on theory and a qualitative study. It was first refined using a smaller survey (N = 160), second, by a larger survey (N = 512), and finally validated by a confirmatory factor analysis. The interviews for the development took place in Austria. The scale consists of six subscales that include questions on the following areas: OMC - ownership, management and control, consisting of four items regarding how the family

business takes care of ownership, management and control; PAF - proficiency level of active family members, consisting of two items regarding how the family business takes care of the proficiency level of active family members; SOI - sharing of information between active family members, consisting of two items regarding how the family business takes care of the sharing of information between active family members; TGO - transgenerational orientation, consisting of three items regarding how the family business takes care of transgenerational orientation; FEB - family-employee bond, consisting of five items regarding how the family business takes care of family-employee bond; and FBI - family business identity, consisting of four items regarding how the family business takes care of the family business identity. For all questions about the items, the approval of a statement on a 6-point Likert scale was requested (Frank et al., 2017). The answers within the subscales were calculated as the mean values for each subscale. Cronbach's alpha for the subscales was between 0.755 and 0.885 and could thus be classified as acceptable for the lowest subscale and predominantly as good for the other subscales.

Since the FIFS is a novel measurement instrument and the authors asked for further validations outside of Austria, we subjected our data to a confirmatory factor analysis, the results of which are shown in figure 8.

**Figure 8: Factor Analysis FIFS**



Fit indices: N=558, Chi-square = 477.4 (df=155 p<.001), CFI = .943, TLI=.931, RMSEA = .061, PCLOSE .002. (OMC, ownership, management and control; PAF, proficiency level of active family members; SOI, sharing of information between active family members; TGO, transgenerational orientation; FEB, family-employee bond; FBI, family business identity)

The confirmatory factor analysis of the FIFS shows that the individual questions all load high on the respective factors. Thus, these questions measure the same factor in each subscale and are suitable for the measurement of the FIFS. As a result, we were able to retest and validate the FIFS for German-speaking countries and thus confirm the results of the initial study by Frank et al. (2017).

The F-PEC scale was actually developed to improve the classification of a company as a family business (Astrachan et al., 2002). The F-PEC questionnaire consists of three subscales: power, experience and culture. The subscale of power includes questions about the ownership, leadership, and management of the company. The subscale of experience asks about the experience of previous generations in the company as well as active generations. The subscale of culture includes the fit of the family and company values as well as the commitment of the family to the company (Astrachan et al., 2002).

**Control Variables.** To ensure that other environmental effects do not affect the results, we include several control variables. We use the number of *employees* as a measure of the size of a firm. It is possible that firm size has an influence in this context because it should be considered that small, medium-sized and large firms have significantly different structures (Haveman, 1993), and it is conceivable that the size and associated capacities of firms could have an impact on their performance. With *generation*, we test for the influence of possible learning effects through previous successions on firm performance (Cabrera-Suárez et al., 2001). Therefore, the respondents had to indicate the actual generation of the firm. We also controlled for the *industry*. The respondent had to assign their firm to one of 22 *industries*. For industry classification, we used the top-level assignment of the statistical classification of economic activities in the European Community (NACE Rev. 2). We tested the analysis with 22 categories and three dummy variables for three large economic sectors. These sectors are *agriculture and forestry*, *manufacturing industry*, *service industry and other industries*. Firms in the respective *industry sector* are coded as 1. In the analysis, we use only three of the dummy variables because the last dummy variable is inherent. Furthermore, we added the *age* of the respondents and the gender as a dummy variable called *female*, coded as 1 when the respondent is female. We added this to consider the possible influences of these characteristics since gender and age can affect the performance of the company, e.g., through different risk attitudes (Khan & Vieito, 2013) or, for example, through different values (Schwartz, 1992) or goals (De Massis, Kotlar, Mazzola, Minola, & Sciascia, 2018). In table 4, we provide a detailed overview of the variables used for the regression models and explain their operationalization.

**Table 4: Variable Description Table**

Variable	Description
1. Performance index	Index consisting of self-assessment in contrast to the competitors in the last 3 years in the following areas: (1) sales; (2) revenue; (3) net profit margin; (4) market share; (5) number of employees; (6) customer satisfaction; (7) product/service innovation; (8) process innovation; (9) adoption of new technology; (10) product/service quality; (11) product/service variety; (12) return on equity; (13) cash flow. All items are measured with equally orientated 5-point Likert scales. Cronbach's alpha 0.871.
2. Success	How successful is your company at the moment in general?
3. Total Sales	Total sales last year (in million EUR)? (ln of sales in the regression models)
4. OMC - ownership, management and control	FIFS subscale consisting of four items regarding how the family business takes care of ownership, management, and control. Cronbach's alpha 0.755.
5. PAF - proficiency level of active family members	FIFS subscale consisting of two items regarding how the family business takes care of the proficiency level of active family members. Cronbach's alpha 0.803.
6. SOI - sharing of information between active family members	FIFS subscale consisting of two items regarding how the family business takes care of the sharing of information between active family members. Cronbach's alpha 0.809.
7. TGO - transgenerational orientation	FIFS subscale consisting of three items regarding how the family business takes care of transgenerational orientation. Cronbach's alpha 0.847.
8. FEB - family-employee bond	FIFS subscale consisting of five items regarding how the family business takes care of family-employee bond. Cronbach's alpha 0.885.
9. FBI - family business identity	FIFS subscale consisting of four items regarding how the family business takes care of family business identity. Cronbach's alpha 0.828.
10. Power	F-PEC subscale consisting of two items regarding the ownership, governance and management of the firm. Cronbach's alpha 0.373.
11. Experience	F-PEC subscale consisting of three items regarding the experience through business succession over generations. Cronbach's alpha 0.710.
12. Culture	F-PEC subscale consisting of thirteen items regarding the culture of the family and the firm. The overlap between the family and firm values and the commitment as family business. Cronbach's alpha 0.917.
13. Employees	Number of employees.
14. Generation	Actual generation of the firm.
15. Industry sector - agriculture and raw materials	Industry sector dummy equals 1 for agriculture and raw materials
16. Industry sector - manufacturing industry	Industry sector dummy equals 1 for manufacturing industry
17. Industry sector - service	Industry sector dummy equals 1 for service
18. Age	Age of the respondent.
19. Female	Dummy equals 1 for females.

***Empirical Analysis.*** To determine the influence of familiness on family firm performance, multiple ordinary least squares (OLS) regression analyses were performed. We established nine models, with three different performance indicators representing the dependent variables. Models 1-3 represent the main part with the performance index as the dependent variable. Models 4-6 use the self-assessment of firm success as the dependent variable, and models 7-9 use the logarithm of the total sales as the dependent variable. For each of the performance variables, first, a model with only the control variables is presented. The second model adds the independent variables of the FIFS. Finally, the F-PEC scale is added, instead of the FIFS, to the model as independent variables. This procedure with three different dependent performance variables was chosen to ensure the robustness of the effects and to allow for a comparison of the results against each other.

### **3.5 Results**

Table 5 shows the means, standard deviations, and minimum and maximum values for the dependent, independent and control variables of the analysis. The dataset ranges from very small companies with under 10 employees to very large firms with more than 2700 employees. This heterogeneity is also represented by the large spread of yearly turnover, ranging from 700 million Euro to 150000 Euro, the generations ranging from the first generation to the sixth generation and higher and the respondent's age ranging from 25 to 86 years.

**Table 5: Descriptive Statistics**

Variables	Min	Max	Mean	SD	N
1. Performance index	1.00	5.00	3.56	0.53	558
2. Success	1.00	5.00	3.95	0.76	558
3. Total sales (million Euro)	0.15	700.00	14.86	54.97	431
4. OMC - ownership, management and control	1.00	6.00	4.79	1.21	558
5. PAF - proficiency level of active family members	1.00	6.00	5.27	1.18	558
6. SOI - sharing of information between active family members	1.00	6.00	5.46	0.94	558
7. TGO - transgenerational orientation	1.00	6.00	4.18	1.53	558
8. FEB - family-employee bond	1.00	6.00	5.41	0.83	558
9. FBI - family business identity	1.00	6.00	4.77	1.11	558
10. Power	-2.00	0.00	0.24	0.46	558
11. Experience	0.00	0.88	0.31	0.23	558
12. Culture	2.00	5.00	4.35	0.64	558
13. Employees	2.00	2700.00	65.46	192.93	558
14. Generation	1.00	6.00	2.31	1.26	558
15. Industry sector - agriculture and raw materials	0.00	1.00	0.02	0.14	558
16. Industry sector - manufacturing industry	0.00	1.00	0.34	0.47	558
17. Industry sector - service	0.00	1.00	0.51	0.50	558
18. Age	25.00	86.00	51.27	10.66	558
19. Female	0.00	1.00	0.27	0.45	558

SD: standard deviation

Table 6 displays the correlation matrix. Some high correlations need to be mentioned. The generation of the company correlates very highly (.908) with the experience variable of the F-PEC. This was to be expected since the experience variable uses the number of previous generations for its calculation. The second notable negative correlation is between the manufacturing industry and the service sector (-.718). This was also expected, as these industry sectors represent the largest parts of the sample and cancel each other out. There is also a high correlation between the performance index and the self-assessment of success (.588), which speaks for our indicator. There are also significant positive correlations between all FIFS variables, as well as between the culture dimension of the F-PEC and the FIFS variables. The highest correlations of these are between family business identity



and the family-employee bond (.553) and between the culture dimension of the F-PEC and the family business identity part of the FIFS (.545). These correlations can be explained by the fact that all variables of the FIFS and the culture part of the F-PEC collect similar data on familiness and are part of the same constructs. The variance inflation factor (VIF) ranges from 1.047 to 2.330 for all variables in model 2. In model 3, the VIF ranges from 1.030 to 6.154. Here, we find a value of 6.154 for experience and 5.877 for generation. These high values are due to the correlation between these two variables and have no negative influences on our models. To ensure this, we also calculated models 3, 6, and 9 without the generation variable and obtained similar results. All other VIFs in model 3 are 2.320 or lower. Thus, multicollinearity is not a concern in our study.

**Table 6: Correlation Matrix**

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	VIF M 2	VIF M 3
1. Performance index																				
2. Success	.581***																			
3. Total sales (ln) (N=436)	.076	.090																		
4. OMC - ownership, management and control	-.004	.002	-.019																	1.411
5. PAF - proficiency level of active family members	.149***	-.018	.057	.236***																1.471
6. SOI - sharing of information between active family members	.132**	-.007	.014	.349***	.511***															1.734
7. TGO - transgenerational orientation	.185***	.042	.131**	.447***	.208***	.214***														1.444
8. FEB - family-employee bond	.288***	-.028	.185***	.256***	.456***	.526***	.270***													1.857
9. FBI - family business identity	.209***	.017	.089*	.321***	.266***	.387***	.352***	.553***												1.622
10. Power	-.004	-.023	-.044	.284***	.029	.105*	.030	.014	.026											1.084
11. Experience	-.059	.070	-.028	.181***	.009	.049	.230***	.047	.196***	.027										6.154
12. Culture	.330***	.026	.219***	.385***	.264***	.380***	.412***	.533***	.545***	.060	.132**									1.030
13. Employees	.049	.109*	.104*	-.058	-.048	-.066	.110**	-.002	.019	-.241***	.163***	-.010								1.058 1.123
14. Generation	-.059	.052	-.026	.147***	.027	.038	.235***	.039	.176***	.025	.908***	.128**	.111**							1.145 5.877
15. Industry sector - agriculture and raw materials	-.009	-.010	.043	.003	.066	.020	.081	.038	.018	-.002	.067	.035	-.030	.109*						1.143 1.151
16. Industry sector - manufacturing industry	.035	-.011	-.021	.015	-.077	-.139***	.122**	-.057	.001	-.076	.138**	.038	.127**	.101*	-.101*					2.330 2.317
17. Industry sector - service	-.067	-.064	.005	-.028	.025	.090*	-.114**	.045	.006	-.007	-.158***	-.022	-.075	-.138**	-.143***	-.718***				2.303 2.320
18. Age	.112**	.008	.039	-.064	.054	.093*	-.071	.089*	.062	-.018	-.226***	.031	.045	-.170***	-.047	.013	-.011			1.100 1.114
19. Female	-.077	-.033	-.026	.046	.053	.034	.081	.010	.037	.003	.063	.029	.000	.057	.030	-.048	.046	-.183***	1.047	1.040

Significance levels: \* p<.05, \*\* p<.01, \*\*\* p<.001 (two-tailed); N=558; M=Model

The results of the regression models are presented in table 7. All nine constructed models are significant. Our first hypothesis addresses the influence of ownership, management and control on firm performance. Model 2 shows a distinct negative effect (-.153,  $p < .01$ ) on the performance measures. This is in accordance with models 5 and 8. Unfortunately, there is no significant influence that is measurable for models 3 and 6, representing the power dimension of the F-PEC. However, model 9, measuring the relationship between power and sales, shows a negative effect of power on firm performance (-.217,  $p < .001$ ). Overall, hypothesis 1 is supported.

Unfortunately, no positive influence of the same proficiency level of employees and family members could be found. Thus, hypothesis 2 is rejected.

Regarding the third hypothesis, models 2 and 8 show no significant values. Thus, we can conclude that there is no influence of information sharing between family members on the performance of the family firm. Only model 5, which is a self-assessment, shows a negative effect at a lower significance level (-.101,  $p < .10$ ). Hence, hypothesis 3 is rejected.

Looking at the transgenerational orientation and its influence on firm performance, all models show a significantly positive influence. This effect is reflected in terms of the performance index (.187,  $p < .001$ ), the self-assessment of firm success (.143,  $p < .01$ ) and total sales (.219,  $p < .001$ ). Thus, hypothesis four is supported.

When looking at the family-employee bond, a positive influence could be observed. This bond has a significant positive influence on the performance index (.228,  $p < .001$ ) and self-assessment (.226,  $p < .001$ ). Unfortunately, no significant influence could be found on total sales. In general, however, we conclude that hypothesis five is supported.

No significant relationship could be found between marketing activities such as family business (family business identity) and performance. Therefore, hypothesis six is rejected.

Similarly, no significant effect was found for the experience of previous generations. Only at a reduced significance level can a positive effect on total sales be found in model 9 (.165,  $p < .10$ ). Thus, hypothesis 7 cannot be confirmed.

For our last hypothesis, the assumption that the more the family and firm values match, and the more strongly the family is committed to the company, the better the firm performance, model 2 (.346,  $p < .001$ ) and model 5 (.232,  $p < .001$ ) show a significant positive influence. Thus, we can conclude that a matching of business and family values, as well as the commitment of the family, leads to better firm performance and success. Unfortunately, this could not be reproduced for model nine. Overall, hypothesis 8 is confirmed.

The results also show that, given the effect sizes in model two, the positive effect of the family-employee bond on the company performance is the strongest, followed by the positive effect of the transgenerational orientation and, ultimately, the relatively weakest influence of ownership, management, and control in family hands.

For the main model, model 2, the control variables show only a negative effect of the generation on the performance (-.099,  $p < .05$ ). Models four to nine consistently show a positive effect of the number of employees on the performance indicators. This effect is much stronger in consideration of total sales, which can be explained by the theoretical connection between company size, in this case, the number of employees, and total sales.

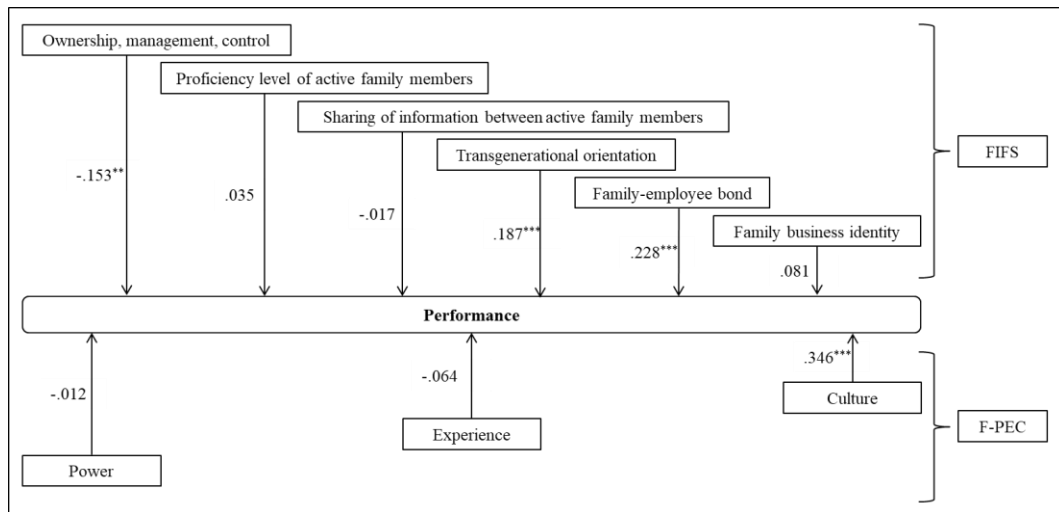
**Table 7: OLS Regressions**

Independent variables	1. Performance Index			2. Success			3. Total Sales (ln)		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
4. OMC		-.153**			-.086 <sup>+</sup>			-.125**	
5. PAF		.035			.000			-.010	
6. SOI		-.017			-.101 <sup>+</sup>			-.071	
7. TGO		.187***			.143**			.219***	
8. FEB		.228***			.226***			-.018	
9. FBI		.081			-.012			.026	
10. Power			-.012			-.032			-.217***
11. Experience			-.064			-.065			.165 <sup>+</sup>
12. Culture			.346***			.232***			.038
13. Employees	.049	.025	.061	.112**	.089*	.116**	.506***	.474***	.450***
14. Generation	-.054	-.099*	-.044	-.036	-.055	-.008	.089*	.066	-.055
15. Industry sector - agriculture and raw materials	-.014	-.041	-.028	.047	.027	.036	.046	.032	.043
16. Industry sector - manufacturing industry	-.042	-.054	-.064	-.034	-.056	-.052	.064	.030	.029
17. Industry sector – service	-.099	-.112 <sup>+</sup>	-.118 <sup>+</sup>	-.007	-.017	-.024	-.026	-.036	-.057
18. Age	.090*	.057	.062	.027	.017	.007	.025	.043	.035
19. Female	-.055	-.072	-.066	-.022	-.029	-.030	-.025	-.029	-.019
Observations	558	558	558	558	558	558	431	431	431
R <sup>2</sup>	.025	.146	.142	.017	.074	.070	.299	.320	.347
F	2.032	7.135	9.038	1.356	3.358	4.108	25.834	16.531	22.293
Durbin-Watson	2.037	2.054	1.911	1.975	1.926	1.870	1.818	1.903	2.153

Significance levels: <sup>+</sup> p<.10. \* p<.05. \*\* p<.01. \*\*\* p<.001  
Standardized estimation coefficients are reported.

The Durbin-Watson statistics show that there is no issue with autocorrelation in our models. The models for the different dependent variables result, for the majority of the effects, in comparable significance levels, direction and effect size. Since the dependent variables change with the models, this shows the robustness of the results if the same effects can still be measured. We also tested our models with other control variables for the industry. To do this, we used 22 industries, instead of the industry sectors, and obtained the same significance levels, directions and effect sizes, further increasing the robustness of our models and the validity of our outcomes.

**Figure 9: Results Related to the Performance Index (Models 2-3)**



Source: Own illustration.

### 3.6 Discussion and Contributions

This study aimed to improve the understanding of the family's influence on family firm performance. By answering our research questions: “*How does familiness influence firm performance in family businesses? Which parts of familiness are more or less fruitful for firm performance?*”, this study extends the existing knowledge on familiness and its influence on family businesses by investigating the effect that results from the premise-setting role of familiness in the decision-making process in family businesses (Frank et al., 2017). This study shows how the parts of familiness influence family business performance. The findings and contributions are discussed in detail in the following paragraphs.

To the best of our knowledge, our empirical study provides the first empirical data that measure the influence of familiness on firm performance using a validated scale for familiness. By doing this, we can show which parts of familiness influence the family firm performance. As expected, hypothesis 1 is supported. If there is a concentration of ownership, management and control in the hands of the family, the performance of the business is worse. As previously discussed, there are many studies with diverse and contradicting results on this topic. Our results are in line with the results of Oswald et al. (2009) and can be explained by the already-existing literature. These results are, for example, higher risk aversion in family businesses

(Chrisman & Patel, 2012; Frank et al., 2017; Naldi et al., 2007), less frequent use and lower effects of monitoring mechanisms for family members (Gómez-Mejía et al., 2001) and altruism toward family members (Schulze et al., 2003). Other reasons include the potential drain of capital by family members (Miller & Breton-Miller, 2006) and overall higher management demands in complex and large families (Gersick et al., 1997; Gimeno Sandig et al., 2006; Ward, 1997).

Hypotheses 2 and 3 must be rejected. A positive influence could not be found for the value attached to the equal qualification and performance of family members compared to non-family members in the company or for the attention paid to the sharing of information between family members. This is a surprising result since both the proficiency level of active family members and the sharing of information between family members are extremely important to companies, as the high means indicate, but this has no significant impact on firm success.

Our analysis of hypothesis 4 shows that transgenerational orientation and thus long-term thinking have a positive influence on performance. This is in line with our expectations and the existing literature, which propagates the need for the early planning of business succession (Le Breton-Miller et al., 2004; Sharma et al., 2001), sustainable actions and long-term investments for better long-term firm performance (Lumpkin & Brigham, 2011; Miller & Le Breton-Miller, 2005).

Hypothesis 5 stated that the stronger the bond between family and employees is, the better the firm performance. This statement is supported, and a positive influence of the family-employee bond and performance could be measured. This is in line with the idea that the flatter the hierarchy and thus the smaller the distance between the family members and employees are, the better the firm performance. This connects the idea of psychological ownership (Sieger et al., 2013) and thus some kind of participative leadership style for which Sorenson (2000) already showed a positive effect on performance.

Hypothesis 6 must be rejected. A positive relationship could not be found between the presentation and marketing as a family business and firm performance. Thus, we could not replicate the findings of other studies that already found such a

relationship (Memili et al., 2010; Zellweger, Kellermanns, Eddleston, et al., 2012). One possible explanation could be the different measurement approach of the presentation and marketing of a family business. We consider the internal perspective of the family, and other studies use the external perception of the family business image, which could explain the different results.

The expectation in hypothesis 7 that the experience through previous generations has a positive influence on firm performance could not be confirmed. This speaks against a positive effect from a special knowledge base or learning effect that could be passed on from generation to generation (Cabrera-Suárez et al., 2001; Le Breton-Miller et al., 2004). However, this finding is in line with the inconclusive findings by Rutherford et al. (2008).

Finally, our prediction in hypothesis 8, that a higher match between family values and company values and thus a stronger commitment positively influence firm performance was confirmed. This finding was expected and aligns with those of the extant literature that a better match in the values leads to higher commitment and thus to better performance (Habbershon & Pistrui, 2002).

In conclusion, it can be shown that familiness influences a family firm's performance manifold. While our research provided us with positive effects of familiness on performance, a negative influence could also be observed. On the one hand, the results show that there are strong positive influences through generational thinking and by the promotion of a strong bond between family and employees. In addition, an overall perspective shows that the family business culture has a positive influence on firm performance. On the other hand, the concentration of ownership, management and control in the hands of family members has a clearly negative effect on firm performance.

With the retesting and validation of the recently developed FIFS by Frank et al. (2017) to measure the influence of familiness on firm performance, the article also answers the call for further validation and retesting of the scale in a different framework. Thus, future studies can build on a validated, working construct to



measure familiness since there is not a suitable measurement instrument prior to the FIFS (Oswald et al., 2009).

Finally, through the additional use of the F-PEC scale, it can be shown how the FIFS works in contrast to the recently used F-PEC scale to measure familiness. The F-PEC scale proves to be ill-suited to measure familiness. This aim, however, was never the intention of the F-PEC. Rather, it was used, as a suitable instrument was missing. The original aim of the F-PEC survey was to classify family businesses based on both quantitative data on family ownership, influence, and experience, and qualitative data on family culture in the business (Astrachan et al., 2002). The FIFS, on the other hand, differentiates between the individual areas in which the family background affects the company and thus provides a much more accurate and more detailed picture (Frank et al., 2017). Thus, the best use for the F-PEC scale is the intended scale for the identification of family businesses. The best use for the FIFS is for the analysis of the influence of familiness on firm performance.

### **3.7 Implications for Practice**

For managers or consultants, it could be very important to understand how familiness influences the family business. In this way, the underlying premises for decision-making by familiness (Frank et al., 2017) and the decision-making process in the family business are easier to understand. In addition, this information on the influences of familiness on firm performance enables managers or consultants to scrutinize familiness itself. If they are aware of the negative effects of the concentration of ownership, management, and control within the family, possible performance limitations might be easier to identify and counteract. This might be done by, e.g., raising awareness of the higher risk aversion, altruism toward family members and the increased use of monitoring mechanisms for family members. Awareness of the potential problem of this concentration can also be an argument for other forms of succession, such as foundation solutions or simple forms of succession, to only one successor to reduce complexity and the potential drain of capital. In contrast, the areas that have a positive effect on firm performance can also be strengthened. The transgenerational orientation and the binding between

family and employees could be promoted, for example, with early succession planning, long-term planning, focus on long-term employment and a good bond between family and employees.

### **3.8 Limitations and Future Research**

Despite the contributions of our study, some limitations should be kept in mind when considering our results. The first limitation is our reliance on a single informant per firm. Future research could attempt to collect dyadic information to obtain an even more accurate picture of the familiness of a firm (Frank et al., 2017).

Second, our data focus only on companies in German-speaking countries. Therefore, it cannot be assumed that the results can be transferred without restriction into other country contexts, even though similar results are to be expected in comparably structured Western countries. Thus, this research would be very interesting, and we would like to encourage other researchers to replicate the study in other contexts and in other countries to compare the results (Frank et al., 2017).

Third, there are potential aims for further research regarding ownership, management, and control concentration on the family. For example, it would be interesting to examine in more detail under which framework conditions the concentration of ownership, management, and control has a negative effect on firm performance to be able to analyze the problem more precisely and provide more precise recommendations for practice.

Finally, the performance measurement is mainly based on the assessment of the respondents. In future studies, it would be interesting to gather more exact key figures of the firms or even longitudinal data about the familiness and key figures of the firms.

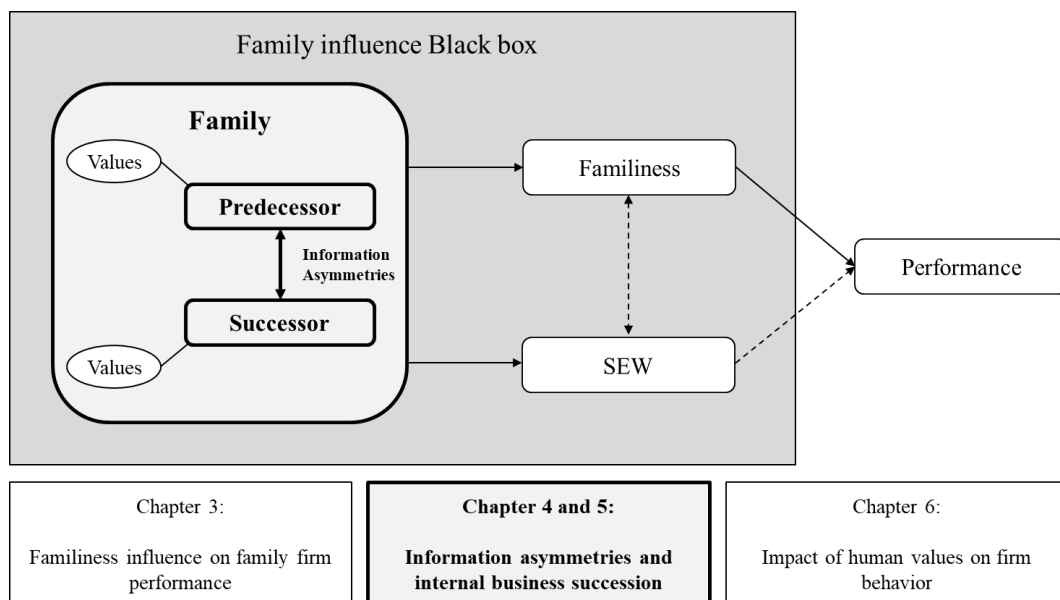
### **3.9 Conclusion**

In this study, the influence of the familiness on family firm performance is shown in detail. The study shows which parts of the familiness influence firm performance.

To do this, the F-PEC and the FIFS approaches were employed. In particular, a negative effect on firm performance by the concentration of ownership, management and control in family hands could be determined. On the other hand, positive effects on firm performance due to the transgenerational orientation and the binding between family and employees within the family firm could be identified. The F-PEC scale was used in contrast to the FIFS, and the results showed that the former is better used to investigate the heterogeneity of family firms, while the latter represents a suitable scale, measuring familiness in family firms.

The following two chapters go into more detail and directly into the family. They examine the critical point in time of the handover from one generation to the next, which can influence the performance of a firm due to the potential failure of the succession. In particular, these next chapters analyze whether information asymmetries occur between the predecessor and the successor in the intrafamily business succession process.

**Figure 10: Interaction of the key elements: Information asymmetries between family members**



Source: Own illustration.

## **4 It Happens Even In The Best Families: Information Asymmetries and Internal Business Succession<sup>3</sup>**

### **ABSTRACT**

We follow the general extension of agency theory discussion concerning family businesses to gain deeper insights into the underlying information asymmetries in family businesses. By doing so, we observe and analyze in depth 14 case studies, delivering new insights on information asymmetries occurring in every phase of the succession process. We observe and investigate numerous role changes between the normal assignment of principals and agents and develop a business succession model. Furthermore, we observe a lack of awareness of information asymmetries and can identify the first indications of the inherent processes used to handle information asymmetries.

Keywords: Business Succession, Information Asymmetries, Family Firms

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## 4.1 Introduction

When you ask yourself whether your parents know everything or should know everything you did in your youth, you come quite fast to the conclusion that even in the relationship between parents and their children, some things remain unspoken. However, we do not mean only secrets about “bad things” we have done but also other things in this relationship, such as motivations or intentions for things we do and our behavior in the one or the other way. Additionally, parents occasionally have the opinion that not everything is destined for the ears of their children. Therefore, why should there not be information asymmetries between parents and children when they talk about family business succession?

Because of the major role of family businesses in the economy, there is a large body of research on these types of businesses. One of the most important streams in this field is business succession, because succession is a critical moment in the lifecycle of a business (Ward, 1988). Often, the right successor cannot be found, or there is no potential successor in the family (Miller et al., 2003). Ultimately, there is the possibility that the succession will fail and the business will die or be sold. Moreover, in family firms that are in the stage of a cousin consortium, handling succession situations becomes more complex (Gersick et al., 1997), because additional stakeholders are part of the succession process and are involved in communication about selection and transfer processes.

We analyze business succession from an agency perspective and propose that predecessor and successor are in an agency relationship (Jensen & Meckling, 1976; Schulze et al., 2001). Following Jensen and Meckling (1976), an agency relationship is a “contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some services on their behalf which involves delegating some decision-making authority to the agent” (p: 308). In business succession situations, predecessors act as principals, and successors as agent (Lubatkin, Durand, & Ling, 2007). This situation results from the fact that the predecessor has a need to identify the candidate who best fits the family and the firm in the position or role of a manager and owner. This is a personnel selection

situation that occurs before the final business succession contract takes place. In this situation, the successor is the person most informed about his or her own abilities and motivations. Assuming that both parties are utility maximizers, it seems reasonable that the agent will not always act in the best interests of the principal (Jensen & Meckling, 1976). In this kind of agency relationship information asymmetries might occur (Akerlof, 1970; Schulze et al., 2001), enabling agents to engage in activities that harm the welfare of the current owner(s) or potential successors and encourage the agent's motivation. To overcome this negative outcome, agency costs occur. Agency costs are defined as the sum of "the monitoring expenditures by the principal, the bonding expenditures by the agent and the residual loss" (Jensen & Meckling, 1976: p.6). Schulze et al. (2001) emphasize that various conflicts and challenges occur due to the agency relationship in family firms.

Currently, only a few studies offer theoretical assumptions and discussions concerning information asymmetries and agency costs in family firms (e.g., Chrisman et al., 2004; Madison et al., 2016) and especially in the business succession situation. Dehlen, Zellweger, Kammerlander, and Halter (2014) elaborate four different broad types of information asymmetries that can occur in a family business succession, especially if exit routes are needed. On the succession candidate side, there is a lack of information about the 'quality' of the transaction goods and an unawareness of the predecessor's intentions and planned post-succession behavior. On the predecessor's side, there is limited information about the successor's abilities and a limited ability to determine or predict the successor's intentions and post-succession behavior. Michel and Kammerlander (2015) stress existing information asymmetries in family firms that could be reduced or increased by trusted advisors. They do not elaborate concrete types of information asymmetries; thus, the question arises of how family firms and trusted advisors should reduce information asymmetries if they do not know what types exist. Zellweger and Kammerlander (2015) offer first theoretical assumptions about why different governance structures foster agency costs in family firms in general but do not offer insights about information asymmetries during succession. All of these

studies mention general types of information asymmetries and provide important hints that information asymmetries do exist even in family firms.

Thus, there are first hints that information asymmetries do exist in family business between the members of a family business. Nevertheless, we do not know much about the concrete types of information asymmetries. We built our study on these first results, realizing that there is a lack of understanding of how these information asymmetries occur and develop in reality. We also provide case evidence to provide proof for these phenomena in the business succession context. We want to contribute to this discussion by providing case evidence, proving this phenomenon in a business succession context, delivering different examples of information asymmetries between family members of a family business. To do so, the study focuses on information asymmetries in the pre-contracting phase/stage, prior to the decision regarding succession – this is, the handover of the management and ownership position. However, information asymmetries can also arise in later phases of succession or regarding the handover contract. We will investigate the existence of these information asymmetries, structure them into types, and analyze how and when they occur in the process of intrafamily business succession. The overall research question of this study is what types of information asymmetries exist in family firms before, during, and after the succession process. In answering this question, we contribute to the existing literature by providing new insights into information asymmetries in the intrafamily business succession process.

The first contribution of this paper is a new understanding of the business succession process from an agency perspective. The study can represent a new starting point for further research on principal-agent behavior in family businesses. The results are in accordance with the first hints in the literature to the effect that agency conflicts and agency costs also could occur in family businesses (Gómez-Mejía et al., 2001). Furthermore, they reinforce the point of view that asymmetric altruism, nepotism, and lack of self-control are all present in family businesses (Bergstrom, 1989; Bernheim & Stark, 1988; Karra, Tracey, & Phillips, 2006; Madison et al., 2016; Schulze et al., 2001). Building on former studies, our findings show that there are much greater, thematically broader information asymmetries

than are explained by existing theories. The study offers a new theoretical view on information asymmetries in intrafamily business succession. This view can help develop the research field and lead to a better understanding of problems in intrafamily business successions. Internal successors would be able to search for information on their own to reduce information asymmetries that hinder their motivation to succeed. The results will also influence current research about selection criteria and the business succession process out of an agency perspective.

The second contribution of this paper is that information asymmetries are analyzed in a process-oriented way. Moreover, we can deliver results for two-sided information asymmetries, regarding either the predecessor or the successor. Through gaining deeper insights into the contract between the two parties, predecessor and successor, it is possible to determine different areas of conflict during the business succession process. The negotiation of the succession mode between closely related actors is the basis of this research. In clarifying changes in information asymmetries over time, the study can help practitioners identify problems related to information asymmetries and help overcome them.

Some insights of this study could also be important for non-family firms. First, with our study, we underline, that information asymmetries also exist in private contexts and can have an impact on the business and the private context. In non-family businesses, also private relationships exist, like friendship or long-term relationships, which influence the working-behavior. Close private relationships do not compensate the phenomenon of agency behavior in the business context. Second, with our study we are able to show, that although there is the unique long time frame in family firms, information asymmetries which could be crucial for the firm survival exist. In non-family firms in the most management succession or external successions, the timeframe is much shorter and information have to be exchanged faster. With our study, we underline the need of awareness for information asymmetries in every succession situation.

This paper starts with the theoretical background, that is, a differentiation and explanation of information asymmetries and the principal-agent theory. We also discuss the process of business succession to embed our view within the literature.



Then, we explain our methods. Afterward, we show results from our analysis, illustrate our results with quotations from our interviews, and develop an overall model. Finally, we discuss our findings, explain the implications for research and practice, and end with our conclusions.

## **4.2 Theoretical Framework**

The principal-agent theory implies the following problems that could negatively influence the contracting phase and, as a result, the success of the succession. All of these problems derive from information asymmetries. Following Akerlof (1970), an asymmetry in available information has developed when one party has more knowledge than the other party in a contracting situation. Although this pure definition is rather neutral, the motivation, if there is one, is crucial, as it can turn information asymmetry into something negative if one wants to benefit from this information gap.

The problems arising from information asymmetries are usually divided into categories in literature. Secrets, mentioned in the first part of this paper, for example, consist of information that is consciously withheld from one party and are often called hidden information. This happens mostly in the pre-contracting phase (Lazear, 1998). Holmström also mentioned Moral hazard (hidden action and hidden information) “that results from an asymmetry of information among people because individual actions cannot be observed and hence contracted upon” (Hölmstrom, 1979, p.74). Another type of possible problem is the holdup phenomenon. It could result out of a hidden intention and could be described as a bilateral relationship in which one or both actors are locked in the contract or are dependent of the other actor (Malcomson, 1997). It is a form of opportunism arising in agreements in which at least one party relies on the behavior of another, while information about the behavior is costly (Alchian, Woodward, & Williamson, 1988). The latter arise after contracting (Lazear, 1998). Procedures that could reduce these information asymmetries include monitoring or a specific type of contracting (Hölmstrom, 1979), which can be described as agency costs (Zellweger & Kammerlander, 2015).

To summarize, agents can use the free spaces in contracts for their own advantage. Schulze et al. (2001) consider that family relationships can make agency conflicts ‘more difficult’ to resolve because relationships between principals (family owners) and agents (family-member managers) are based on emotions, sentiments and informal linkages, resulting in less-effective monitoring of family managers.

With our study, we focus on the internal business succession process. Le Breton-Miller et al. (2004) describe succession as a long-lasting process and divide the process into phases. The predecessor must set ground rules and perform the first steps of the succession planning. The development and nurturing of the successor is the time during which potential successors join the family business and must fulfill various requirements, for example, an internal education program. We call this period the before phase embracing all activities before entering the firm and signing a contract. Until the final ownership transfer, successors do not have shares or have only restricted shares, but they already have some (or acquire more) management competencies, and often already work as employees in the family business. We label this phase the during phase. The management exit of the predecessor concludes the time the predecessor and successor work together in the family business (during phase) and starts the after phase.

However, the predecessor is ultimately responsible for making the final decision about which candidate is the best fit for the family and the firm and to whom he will transfer the family business. Moreover, the process shows that a personnel selection situation is inherent. There are additional contracting situations that include, on the one hand, agreements about educational development and, on the other hand, the legal and financial conditions of the succession mode (Nordqvist et al., 2013; Wiklund, Nordqvist, Hellerstedt, & Bird, 2013). The succession process takes place over several years, during which various agency situations can occur (Madison et al., 2016; Schulze et al., 2001; Sharma, Chrisman, & Chua, 2003). Both actors must align their interests over time, and the development of the family business can require adjustments of initial expectations and agreements (Jaskiewicz, Heinrichs, Rau, & Reay, 2016; Kotlar & De Massis, 2013). In this alignment process, the power is distributed unequally between the predecessor and

the successor. This unequally distributed power is unique in the family business internal succession, because of the private and business dependence of both actors. For this, it is important to define, who in this situation could be defined as principal and who is defined as agent. In line with Lubatkin et al. (2007), the parent in family firms is considered the principal, whereas the offspring, who is (potentially) employed at the firm, is the agent.

We then differentiate between two contracts (the family and the business contract) and focus on the management succession (Nordqvist et al., 2013). Both actors can ask: “who wants what from whom?”. This question is a fundament for a contract. There are more than legal contracts in the family business succession situation (Gómez-Mejía et al., 2001; D. Rousseau, 1995). Differing expectations about the succession mode must be matched, and the predecessor and successor should agree upon the solution to close the contract. For this purpose, an exchange of information between the contract parties must be realized.

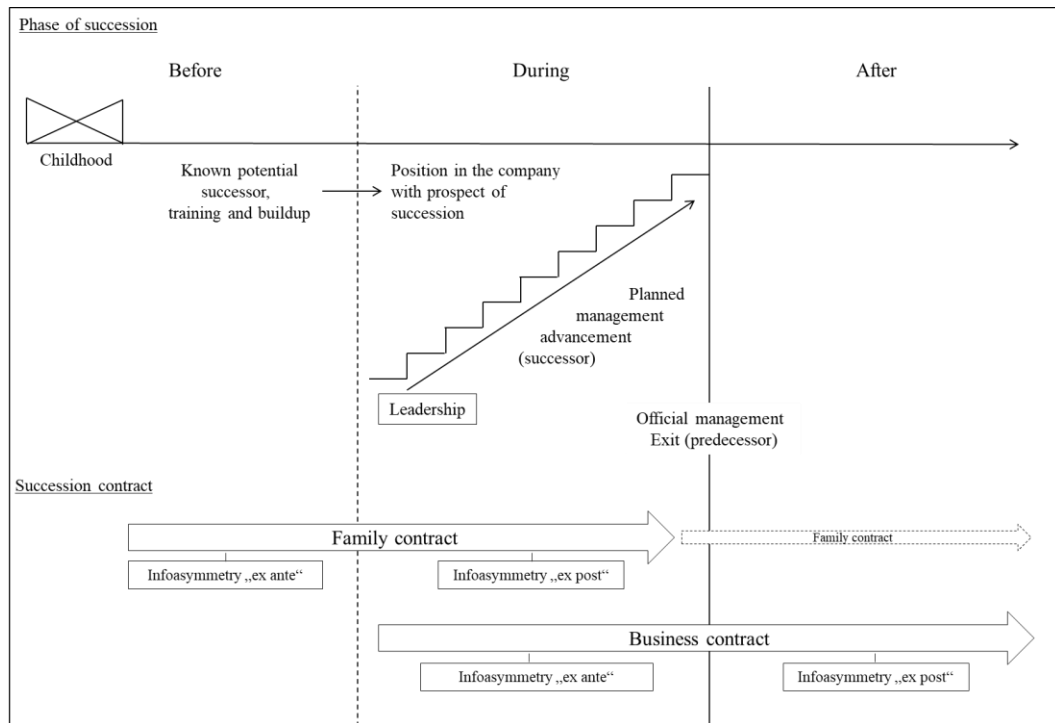
The following two types of information must be exchanged: information on the family side and information on the business side (Kotlar & De Massis, 2013). Both information exchanges are goal oriented – satisfaction in the family and long-term survival in the business field (Jaskiewicz et al., 2016; Le Breton-Miller et al., 2004) – to generate a contract for the succession in general. Following this understanding of behavior between predecessors and successors, many information asymmetries could exist. These information asymmetries exist in the daily family relationship, but they could be even more difficult to overcome in this context of a family business compared with a non-family business because of the close relationship between predecessor and successor. Information asymmetries could even multiply when we consider that there are often more-complex constructions in the succession process for a two-person relationship, for example, when there is more than one predecessor or more potential successors or family members interested in the business. To wrap this up, we assume that there is one contract, based on social interactions and liabilities, that addresses the goals of the family members (Jaskiewicz et al., 2016; Kotlar & De Massis, 2013; Lubatkin et al., 2007). For example, the expectations of most of the fathers are that the sons will take over the

family firm. These expectations influence the behavior of principals and agents. Lubatkin et al. (2007) note that for example, family-oriented altruism provides parents a rationale to take actions such as encouraging their offspring to free ride and shirk and encourages the often-mentioned unwillingness to establish incentive-based pay schemes to avoid conflicts. Nevertheless, it can be considered that there are monitoring mechanisms and mechanisms in the upbringing and socialization of potential successors that intend the succession of offspring (Jaskiewicz et al., 2016; Lubatkin et al., 2007; McMullen & Warnick, 2015). This behavior is established in an unwritten contract that we label the *family contract*. Family heads in their double role as family member and predecessor would like to have a family member as successor. Expectations about the willingness and motivation to succeed are part of the (psychological) family contract. These expectations are connected with the role as family head, which also are intended to preserve the economic fundament of subsequent generations through transferring a family firm (DeTienne & Chirico, 2013; Miller, Breton-Miller, & Lester, 2013; Naldi, Cennamo, Corbetta, & Gómez-Mejía, 2013). It is assumed that this (psychological) family contract, which is specifically related to the business succession, starts with every birth of a potential successor. The situation wherein parents believe that they know better than the child what is in the best interests of the child can foster an information asymmetry situation because children would like to have the chance to succeed as well as the chance to opt out (Lubatkin et al., 2007). Children who are old enough to spend more time away from their parents are able to hold information back, and their observability by the parents is limited (Chami & Fullenkamp, 1997; Lubatkin et al., 2007). Through joining the company with the aim to become the successor of the firm and starting a structured development and nurturing process, the contract between both parties is closed, particularly if one potential successor makes the decision to succeed and fulfills the expectations of the other family members. In this case, the management succession occurs and finishes the business succession-related family contract. Generally inherent in the family contract are familial obligations for preserving socioemotional wealth (Berrone et al., 2012) after the management succession. Upon fulfilling the expectation that there is a willingness to succeed, the after phase starts.

In addition to this family contract, there is another, probably formal contract addressing the succession aspects of management and ownership. We label this contract the *business contract*. This written and formalized contract includes legal, financial and organizational conditions. We define the starting point of the succession-contracting phase as the point in time when the successor decides to join the company and obtains a position that enables him to become a successor. The point in time when the predecessor leaves the management board of the family business upon implementing the successor as the one and only leader of the company is the point in time that closes the contracting phase and starts the after phase.

Keeping in mind the different phases and the two contracts, we can conclude that there is an overlap between the two contracts. The phase between joining the company to become the successor of the firm and the day of the conclusion of the contract we label the during phase. Both parties could have different expectations and different motivational factors that can influence the contracts. In both contracts, the successor knows better, for example, why he is willing to succeed and whether he is committed to the family business. The predecessor rules the process of decision making, which potential candidate will be selected and how and when the family firm will be transferred. In the family contract, emotions can blind both parties, and in the business contract, business goals can influence decisions (Jaskiewicz et al., 2016; Kotlar & De Massis, 2013). As a result, during this time, different types of information asymmetries can arise. Figure 11 illustrates the theoretical understanding of this study.

**Figure 11: Business Succession Phase Model and Contract Definition**



Source: Own illustration.

Kotlar and De Massis (2013) show that “goal diversity is more strongly expressed when an intrafamily succession is imminent”. They propose that intrafamily succession is a catalyst to change for organizational goals in family firms (Kotlar & De Massis, 2013). Following their qualitative empirical study, it could be assumed that different goals of the actors in the succession process exist that must be aligned. First and foremost, the goal diversity of the actors is neutral. However, it can be assumed that information asymmetries exist according to the goal diversity. Based on the theoretical understanding of information asymmetries in family businesses, this study takes a step backward and defines the following research questions: *What types of information asymmetries exist in family businesses before, during, and after the succession process? Do the information asymmetries change over time?*

### 4.3 Data and Method

Our general aim of this paper is to provide in-depth insights into information asymmetries in family businesses and at what stage during the succession process.

Because we want to describe the phenomenon in a real-life context – information asymmetries during the business succession process – we selected the multiple-case study method (Yin, 2013). To answer our research questions, we chose an exploratory, descriptive multiple-case study design (Eisenhardt, 1989b). Another reason for using a multiple-case study is that it offers the possibility to create a more robust base for this explorative approach (Yin, 2013) with an inductive research design.

To be part of the case study sample, certain requirements for being a family firm had to be fulfilled. Following Chua, Chrisman, and Sharma (1999), we consider a business a family business if the following criteria are fulfilled. First, at least 50 percent of the business must be owned by one or more families. Second, one or more family members must be involved in management or have an influence on strategic decisions and development. Third, a business succession process must already have taken place, be taking place, or be at the planning stage. In addition to the criteria we investigated before every interview, every interviewee was asked for his or her evaluation of whether the company was a family firm.

We gathered information through semi-structured interviews. Eisenhardt (1989b) suggests a limited sample to gain deep insights into processes. Following this recommendation, in the first step, we chose six case studies. In this sample, for every succession stage (before, during and after), two cases should be included. During the process of crafting instruments and protocols and entering the field, further questions arose concerning, e.g., firm size and the age of the successor. For this reason, we gathered eight more case studies to address these open questions following Eisenhardt (1989b), because overlapping data analysis with data collection allows adjustments during the data collection process. Thus, the final sample consisted of 14 case studies. For each case, we interviewed at least the predecessors and the (potential) successors of each firm. In some cases, we additionally spoke with other family members to gain more information and a third-person view. The authors interviewed 49 family members of the 14 family firms from 2009 to 2014. The interviews with the family members yielded 882 1.5-spaced

pages of text. The interviews took an average of 51 minutes, ranging from 23 to 95 minutes.

To gain deep insights and to be able to compare the different statements, we concentrate on interview questions related to selection criteria, the timeframe of the selection process, the pool of candidates, and external education and training prior to the business succession process. We are able to consider several views in the business succession process. The final sample of firms is shown in table 8.

**Table 8: Data Display**

Company/Case	1	2	3	4	5	6	7
<b>Branch of industry</b>	Chemical industry	Heating contractor	Hotel and catering	Food retailing	Services	Refrigeration	Sale of motor vehicles
<b>Legal structure</b>	Estmt: SP, Change to LLC	Estmt: SP, Change to LLC	LLC	LP	LLC	LLC	LLC
<b>No. of interviews</b>	4	4	6	4	2	5	3
<b>Family Generation</b>	2	2	5	5	1	1	2
<b>Established</b>	1955	1957	1810	1887	2009	1985	1960
<b>Employees</b>	35	40	11	16	11	45	16
<b>Status of Succession</b>	Before	Before	Before	Before	During	During	During
Company/Case	8	9	10	11	12	13	14
<b>Branch of industry</b>	Mfg. of machines	Meat processing	Gas, water, heating installer	Building company	Industrial supplier	Technical Building Equipment	Painter
<b>Legal structure</b>	LLC	Estmt: SP, Change to LP	LP	Estmt: SP, Change to LLC	LLC	LLC	GP
<b>No. of interviews</b>	3	2	4	2	2	3	5
<b>Family Generation</b>	3	3	4	3	2	2	5
<b>Established</b>	1952	1950	1908	1948	1991	1928	1865
<b>Employees</b>	240	25	4	20	41	149	7
<b>Status of Succession</b>	During	During	During	After	After	After	After
Estmt = Establishment; LLC = Limited Liability Company; LP = Limited Partnership; SP = Sole Proprietorship; GP = General Partnership							

In line with Eisenhardt's (1989b) eight-step process, we iteratively analyzed the qualitative data, following the theoretical and empirical evidence of principal-agent theory. The authors coded and analyzed the data as follows. First, we summarized the findings of the data-collection process through detailed case descriptions. We categorize every case according to the stage of succession we gathered information about. Through the orientation to the theoretical model (based on a business succession from an agency perspective), we created an initial deductive coding scheme for the first-order constructs (e.g., information about selection, information



about succession modes, and information about finance and legal situations). We searched inductive for any information asymmetry we could find without evaluating the quality of the information. The unit of analysis is the information asymmetry between both actors, which we identify through comparing the different levels of knowledge. The sub-categories were built by inductive open coding because of the specific situations in different family firms and the specific characteristic of the information asymmetries. To show how the coding of primary to secondary codes and, finally, to categories progressed, we used a format by Gioia, Corley, and Hamilton (2013). Figure 12 illustrates the coding for the before phase. We used MAXQDA and Excel computer programs to organize our data and code the interviews. The analysis of the data enabled us to establish overall categories as a basis for developing the overall model. To check internal validity, we used a subsequent cross-case comparison (De Massis & Kotlar, 2014). After data reduction and data contextualization, we were also able to distinguish between deductively and inductively generated information. After gathering the independent perspectives of the individual coders, we checked the intercoder reliability. After that, we discussed any remaining discrepancies with all three authors until consensus was reached. Arranging the categories chronologically in connection with the theoretical model enabled us to develop an information asymmetry model for family firms. To improve our construct validity, we presented the preliminary results to experts and interviewees (De Massis & Kotlar, 2014; Flick, 2014). The discussion with the other researchers and with the participants helped us to improve our understanding of the second- and third-order concepts we built to generate our overall information asymmetry categories.

#### **4.4 Analysis and Results**

The iterative process of data analysis, literature review, and writing resulted in an overall model that explains information asymmetries in family businesses. Following the theoretical understanding of two contracts during the business succession process, we describe our findings chronologically, from the phase before integrating the potential successor into the firm until the departure of the predecessor. The identified information asymmetries in the phases are sorted in

descending order to illustrate the number of cases in which these information asymmetries occurred and the frequency of citations in each category.

During the analyses, we observed that the information asymmetries do not solely occur in the classical manner of the principal-agent theory. According to the classical theory, the predecessor should be the principal and the successor should be the agent, with the known problem of limited information about the successor. Instead, we found that these roles could change, in the way that the successor sometimes also has to be seen as a principal. We had to recognize that it is not only the successor holding back information by not communicating appropriately with the predecessor. At the same time, the predecessor does not detail all of his plans, thoughts, or appropriate information to the successor. The successor is also in the situation that he or she needs to know as much as possible from the predecessor about the enterprise because successors will take on financial burdens and liabilities. Thus, it can be talked about principal-agent or principal-principal roles with information asymmetries in this process (Jensen & Meckling, 1976).

In the next sections, we present our findings concerning information asymmetries at the different stages of succession.

In the theory part, we already assumed that different goals between family members might exist. Moreover, we were able to identify goal divergences in our data. These goal divergences (Küpper, Moog, & Sandner, 2015) occur in the family and in the business context, which is in line with the findings of Kotlar & DeMassis (2013). This also supports our theoretical model, which includes a family and a business contract. We propose that out of these contract situations, various information asymmetries could emerge. In the following, we provide an example in which goals differ and illustrate in which context they occur. The successor states that he has the goal to succeed and continue the business. He assumes that an internal succession is the only succession option and that his own life plan (family context) is realized with the succession.

*8.suc: That was actually my goal from the outset. I always said, if I do that, then, of course, I later want to be at the top, in quotation marks.*

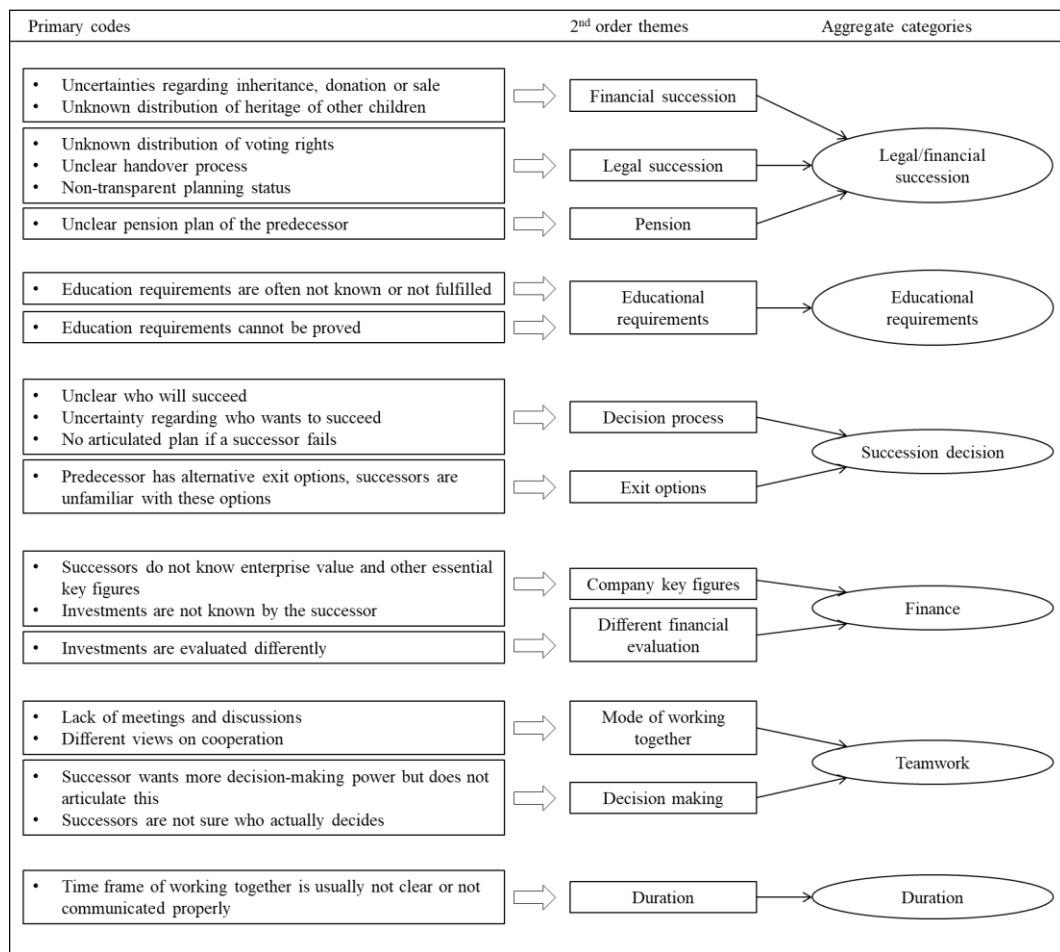
In contrast, the predecessor has the goal to ensure that he receives a sufficient pension to finance his retirement (business context). To reach this goal, he is also open to an external succession.

*8.pre: If that does not work, then at some point you have to say, “The most important thing is to save his own skin”. I will not face poverty in retirement just to pursue any noble principles.*

#### **4.4.1 Information Asymmetries Before Selection of the Successor (Before Phase)**

For the before phase of succession, we separated our coding into six categories of information asymmetries. To analyze the before phase of business succession, we had material from six cases, with 113 codings. The data structure for the before phase is illustrated in figure 12; it shows the components of the different categories.

**Figure 12: Data Structure**



Source: Own illustration.

The first category, legal/financial succession, combines the information asymmetries between predecessor and successor concerning the design of management transfer, financial succession and the pension plans of the predecessor. In this category, in most cases, the potential successor does not have all of the necessary information about the financial and legal succession. On the one hand, many successors do not know enough about their future role in the enterprise. For example, they might not have a plan for how the management shares will be divided, or they might not know at what stage the predecessor's planning is or how their siblings will be involved, whereas the predecessor most often knows how he will handle these factors. The following statement is characteristic of these problems.

*Interviewer: Will you then – in the case of management succession or during the succession process – be in an employment relationship or will you get shares of the enterprise?*

*2.suc: I don't know. I have no idea.*

On the other hand, many successors do not know how the ownership will finally be transferred – whether it will be bequeathed or given away or if they must pay for it, as in the following example, in which the predecessor has a plan but does not inform the successor:

*Interviewer: Will your parents at first keep shares or transfer them all?*

*1.suc: It is difficult to tell for me. Maybe they will keep a few shares, but maybe they will transfer 100 percent to us. I don't know yet.*

Another major problem is that the successor often does not know enough about the pension plans of the predecessor, although the pension can be a critical problem in the succession process because it can weigh heavily on the company's or the successor's financial situation and determine the financial succession. It can be assumed that the predecessor, when he makes considerations for his succession, already has a plan for his pension. A clear arrangement is lacking between the two parties, as in the following case in which the successor only guesses.

*Interviewer: Do you know how your parent's retirement is financed?*

*3.suc: The retirement of my parents? Yes, by me, I guess.*

Summarizing the current findings, it could be proposed that there are information asymmetries concerning the financial situation that are held back to get a final solution and contract. This can have consequences for the company's further development and the family situation.

The second category contains the *educational requirements* the predecessor expects from the successor. In this category, we found indications that these expectations are often not known by the successor, whereas the predecessor can articulate them clearly.

*6.pre: And then he must definitely make an additional technical education.*

*Interviewer: Also, on the skills here, it does not require very specific knowledge?*

*6.suc: You grow very fast into that; this can be acquired by yourself.*

In some cases, these requirements would instead clearly not be fulfilled by the successor. The possible resulting conflicts can be traced back to these basic information asymmetries. Additionally, we can observe that in most cases, predecessors do not require hard proof of the successor's education. Thus, successors need not show their reports and certificates.

The following category (*succession decision*) combines the information asymmetries concerning the decision of who will succeed, alternative plans for the succession and other related asymmetries. Here, the first bidirectional information asymmetries appear and illustrate the diverse conflicts based on information asymmetries with many interdependencies. Similar to the unknown expectations of *educational requirements*, the predecessor often does not know whether or why potential candidates are willing to succeed, whereas the successor must have an opinion about that, as the following case shows:

*7.suc: So all know that somehow, we will all remain in the family business, but no one knows for real how it should go further now.*

*7.pre: In my perspective, I offered them the freedom to decide for themselves, but in the case of my son, I think it is similar as in my case, for him I think it was clear from the beginning that he wants to do that [succeed] [Daughter 2] would certainly not and [daughter 1] is unsure.*

The normal case is that the predecessor decides who will succeed without accurate information about motivational factors. Additionally, the potential candidates are occasionally unsure whether and why they will be chosen.

All of these information asymmetries occur during the time of selection. In addition to internal family information asymmetries, the situation can become more complicated because of the possibility that, in addition to the internal pool of

candidates, external options might be considered by the predecessor but not by the successor. Among the asymmetries in this category is that successors often do not know that various exit strategies can be envisioned by the predecessor, and some have no clue about emergency plans when, for example, the succession must occur suddenly, or the intended successor fails.

In the fourth category (*finance*), we found information asymmetries about the financial situation of the enterprise. These information asymmetries are only in one direction. In the following example, the predecessor did not know how he held back investments before succession, or he did not want to realize it. However, this lack is not the point. The interesting phenomenon is that the successor explicitly mentioned that he had the opportunity to obtain this information before the succession:

*Interviewer: When it was not really clear that your son would take over the company, were some investments restrained?*

*11.pre: No.*

*11.suc: No, I'm not blind. You only have to open your eyes and go once through the company. Then you'll know where investments have been held back and where not.*

Other asymmetries in this category show that the successor often does not know the company's value, its financial situation, or its strategy. These data represent key information about the company that are known by the predecessor and should be important for a potential successor in making his succession decision. The fifth category (*teamwork*) includes information asymmetries on the expected cooperation between the predecessor and the successor while they work together until the exit of the predecessor, such as the type of cooperation and the decision-making process. Here, bidirectional information asymmetries can be observed. Some predecessors think that the successor wants them to stay out, but they do not know what the successor's opinion is. One case shows from the third person view a lack of communication between the two parties about their cooperation in this transition phase.

*7.pot.suc.: I would say my father thinks he has released quite a lot. My brother thinks, "Oh God, he has not yet released at all," and I think they are meeting at the moment on a good middle way. I think they don't really know the opinion of each other.*

The last category consists of asymmetries about the expected *duration* of succession. Moreover, in the case of the *duration* of the succession, bidirectional information asymmetries can again be observed because both parties have their own ideas concerning this duration. The emerging problem seems to be a lack of communication about these plans. In most cases, both parties have an idea about the timeframe, but their ideas are not the same.

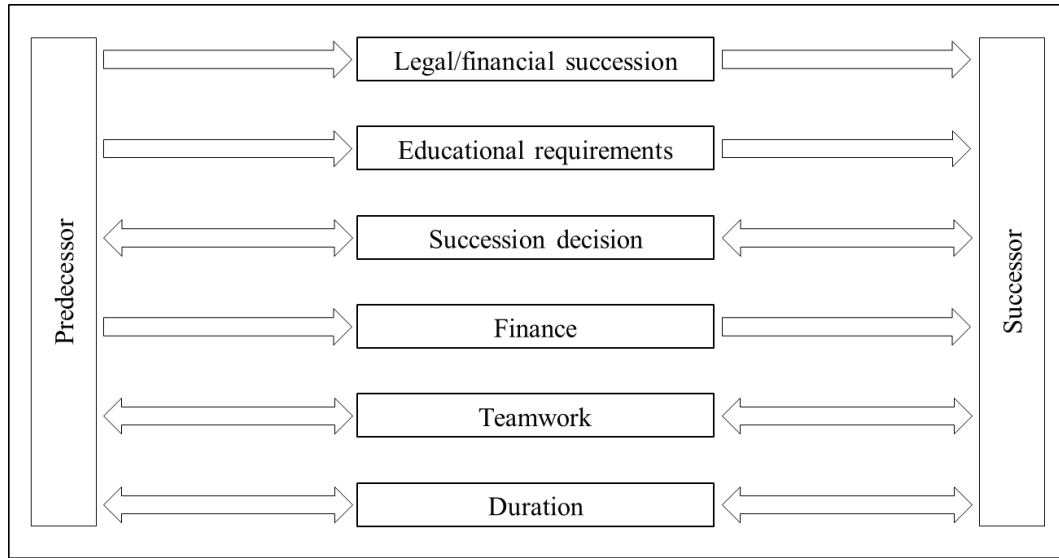
*9.pre.: (...) for me, the most important thing is "learning by doing". Because of that, the early succession, you need to grow organically.*

*9.suc.: As we practically started this transfer process, I have to honestly say now, it was not already clear to me that this will take such a long time and how complex it is in the proper sense, so this was actually not so clear to me.*

In figure 13, the categories are sorted by their cross-case frequency in descending order with their observed direction of information asymmetries. In most cases, the lack of information goes from the predecessor to the successor, and in some categories, the information asymmetries occur in both directions.



**Figure 13: Information Asymmetries in the Before Phase of Succession**



Source: Own illustration.

In addition to the categories we illustrate above, we found hints for information asymmetries according to *changes in the company*, *knowledge transfer*, *networks*, and *commitment*. However, the database was too small to build up categories for these findings. We can propose that prior to business succession, questions about structural processes and selection criteria are greatly affected by information asymmetries.

#### **4.4.2 Information Asymmetries in the During Phase of Business Succession**

The overlap between the two contracts we defined in the theoretical section of this study results in a during phase. This phase is the time between joining the company to become the successor of the firm and the day of the conclusion of the contract. For analyzing the during phase of business succession, we had material from six cases and 119 codings. In addition to the categories mentioned in the before phase of succession, other categories came up.

In the first additional category (*changes in the enterprise*), we observe that with more leeway in decision making, responsibility and the outlook of becoming the successor, successors start to think about changes in the organization, product portfolio or strategy. The dimensions of differences in decision-making and

leadership styles are identified as information asymmetries. In some cases, the successors communicate openly that they will strategically delay some changes until they gain more ownership or the predecessor has left the company. The successor knows that the decision that he plans to make is not the same decision that the predecessor would make. In addition to the view of the successor, the predecessor does not communicate his expectations of important changes needed to stay innovative. As a result, the successor is unable to react to these expectations, which could provoke a conflict.

The second new category we label *knowledge transfer*. Both parties are sensitized to the fact that knowledge must be transferred. However, some asymmetries could also be identified in the during phase. On the one hand, the expectation of the predecessor concerning the level of knowledge transfer does not coincide with the level of knowledge the successor has. In most cases, special explicit knowledge is transferred, but general implicit knowledge – for example, names of network contacts of the past or code words for personal computers and other important IT or bank accounts – are not transferred. In the following case, the successor points to the predecessor, who withholds information.

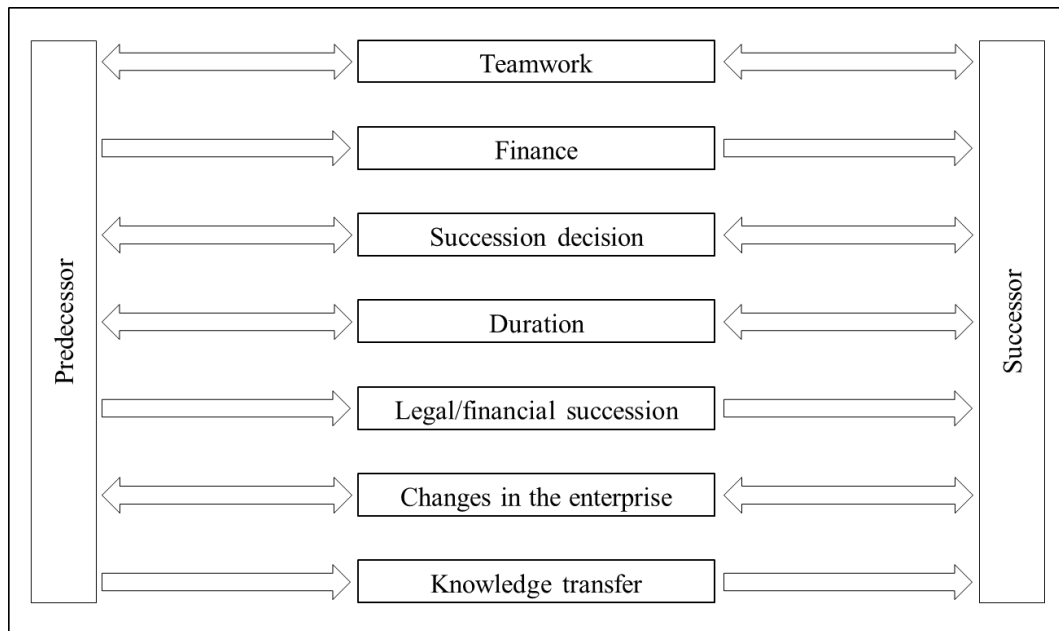
*5.pre: All that is important is set out in writing.*

*5.suc: Often, it is so that the knowledge transfer is blocked, people want to keep something for themselves, still want to have the power and do not give the pass.*

On the other hand, the expectations about knowledge transfer processes are not the same. Most of the time, they are close to the thinking about what type of knowledge is transferred. This limited knowledge transfer results in some of the previously mentioned information asymmetries, such as legal/financial decisions.

Additionally, in the categories that arise in the duration phase of succession, various directions and influencing factors of different types of information asymmetries arise. These are visualized in figure 14.

**Figure 14: Information Asymmetries in the During Phase of Succession**



Source: Own illustration.

We identified a change in the importance of information asymmetries. Whereas in the before phase of business succession, *legal and financial succession* planning is identified as the most important, in the during phase, the expectation of *teamwork* becomes the most important. In Case 9, perceptions about the roles of the actors are different. In a situation in which both actors told the interviewers that they are working together and are both responsible for important decisions, the predecessor stated,

*9.pre.: Yes, I am able to outstrip the company. For real, I do not have any decision-making authority in quotation marks.*

*At the same time, the successor stated:*

*9.suc.: Sometimes he takes a back seat, but sometimes he comes to the front and decides on his own, like ordering important engines. He does it on his own account, without asking me for my opinion.*

Other characteristics of *teamwork* information asymmetries are the influence of the predecessor in general and the different types of leadership. As the predecessor starts to transfer management power, he starts to lose his own. As a result, conflicts

arise that are often the result of different information, which we can evaluate as information asymmetries. The style and frequency of communication are other factors influencing this type of information asymmetry. Often, there are misconceptions because of different styles of communication and a different understanding of the information the other person has or needs. Therefore, we evaluate these information asymmetries as one because they are influenced or produced by both actors.

Information asymmetries about the *financial* situation are more often identified in the during phase than in the before phase. Successors might not know the key performance indices of the company, the company's value, or the concrete debt-to-equity ratio. In this type of information asymmetry, it is clear that the predecessor is responsible for knowledge sharing. The successor could not obtain important information without the support of the predecessor, as in the following example.

*14.suc: We were quite shocked at the beginning because the enterprise was financially poorly guided. (...) So, we first had to clean up quite strongly. (...) When we had a little insight, we also considered whether it is the correct decision, because the financial side was very much in disorder. So, we had to take on a lot of burdens.*

The information asymmetry, which is about the *succession decision*, is in the same order as in the before phase. Additionally, the characteristics are not very different. Only the possible situation in which the family firm could be sold, although one or two potential candidates are identified and integrated into the company, could be underlined.

*8.pre: I would also decide this against the wishes of my children.*

An interesting finding is that the type and *duration* of teamwork must be analyzed independently. Occasionally, predecessors do not disclose their plans about when they will finally exit the family firm and transfer full management competence and ownership shares to the potential candidates. In this part of the analysis, it is interesting that predecessors often only provides vague information about their

plans. Successors have plans in mind that include the final exit of the predecessor, but in most cases, these plans do not overlap with the plans of the predecessors.

*5.suc: So, the expectation was that he keeps out. (...) But in the end, now he has to leave me in peace.*

*5.pre: Let's say, I am now 69. If I am still fit in five years, then I am at leisure, more here. (...) And I am going to do so even in 10 years.*

The wishes or expectations of successors that the predecessor should leave the company are unknown in most of the cases because of the need for more leeway in decision making. Moreover, the motivations of both parties, which are linked to an expanded or limited period of succession, are shrouded in silence. We could also state this finding in the section below, but in the phase of working together and the impending end of teamwork in management, the duration of the teamwork becomes more important. In five of six cases, we can identify information asymmetries of this type.

Related to this finding is the category we labeled *legal/financial succession*. The most important category in the before phase is not that important in the during phase. Some parts of the information asymmetries have already decreased at this point. The type of ownership transfer is discussed more often, and occasionally, the first parts of shares have already been transferred. Nevertheless, we still find examples in which the successor does not know in which contractual form the succession will take place.

*Interviewer: In what contractual form will the handover will take place?*

*8.suc: I think we will have to buy them [shares]!*

*Interviewer: You have not talked about it yet?*

*8.suc: We really have not talked about it yet. I have not even thought about it, but to be honest until now I pushed the question aside.*

The important information asymmetry during this phase is the final point in time of full ownership transfer and the retirement arrangement of the parents. Summarizing the current findings, we could propose that there are different types of information

asymmetries in family businesses in the during phase of business succession. In addition to the issues mentioned above, we can identify conflicts and divergent expectations on education, engagement, and unknown network contacts but with less importance or fewer cases. Therefore, we do not include them in the frame at this stage.

#### **4.4.3 Information Asymmetries in the After Phase of Business Succession**

In the after phase of business succession, we found out that predecessors and successors, retrospectively and in the current situation, do not recognize information asymmetries and are unable to identify them. One additional category was discovered: *differing views*. This category includes information asymmetries about the meaning of the family firm for the individuals, the family, and the firm. For example, the family firm is evaluated as the life work of the predecessor by the successor, but the predecessor him- or herself evaluate it differently.

*12.suc: Of course it is, so to speak, his lifework.*

*12.pre: I would not say, "It was my lifework." It was just the intention to work longer.*

Based on the categories we previously observed in the phases, there are hints that the successor obtained financial information after the predecessor left the company. Thus, during the transfer of full management competence and the first steps of ownership transfer, the successor did not know the financial situation at all.

*11.suc: Many financial burdens of which I knew nothing.*

The successor calls it a financial burden because he must handle the ensuing results of this information asymmetry. He takes over the business with expectations that do not correspond to the real situation of the family firm. The financial situation was not as good as he had expected, so restructuring steps were needed.

We must underline that our analysis shows that because of social expectancy and cognitive complexity reduction, the interviewees were unable to mention and evaluate information asymmetries. Because the predecessor had already left the

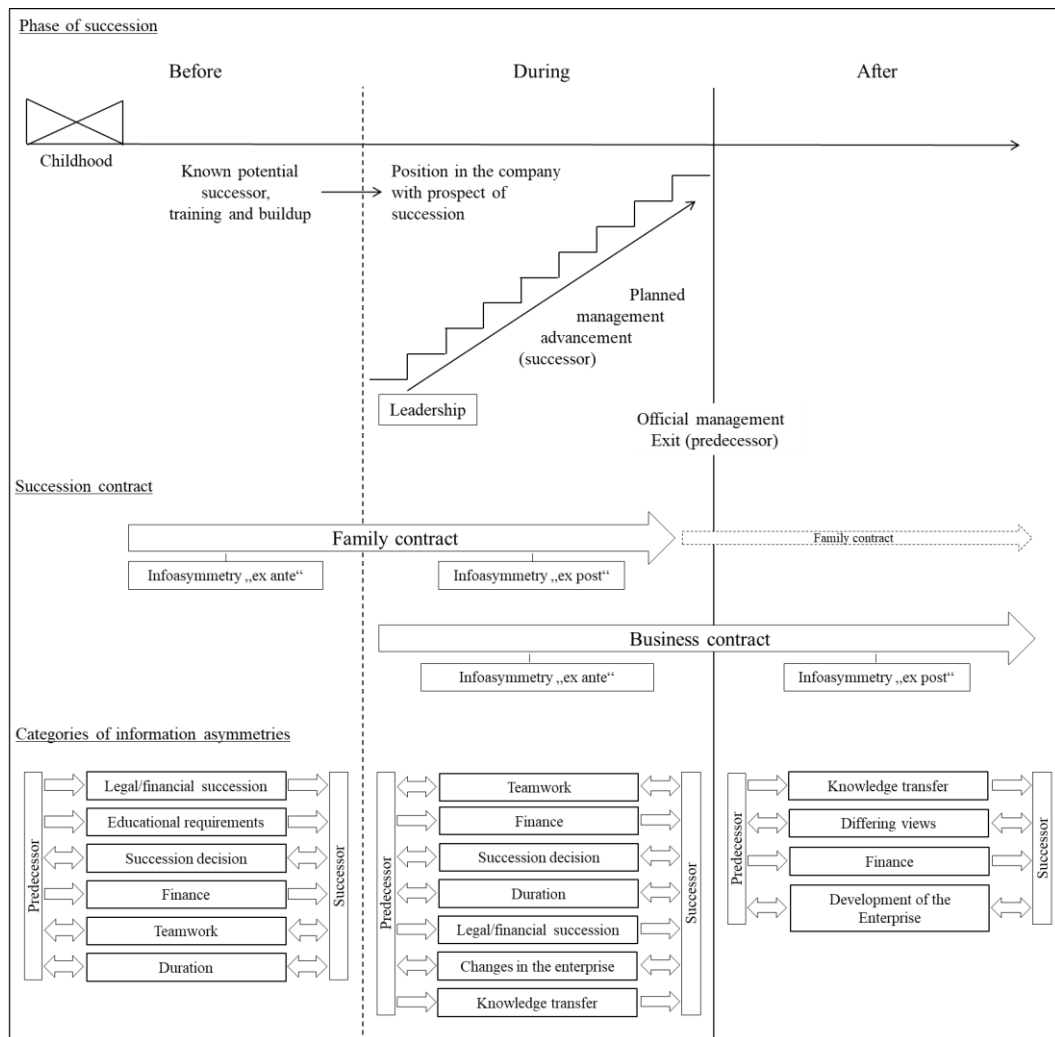
company, a comparison of both statements in many parts was difficult or impossible to achieve.

Summarizing the current findings, we are able to propose that there exist fewer but still some information asymmetries. On the one hand, both parties are unable to identify and evaluate them; on the other hand, in the cases, we were able to observe, the long period of succession allows them to reduce information asymmetries.

#### **4.4.4 Information Asymmetries in Intrafamily Business Succession – An Overall Model**

Concluding the findings of our analysis, figure 15 summarizes our results in an overall model. Our theoretical model at the beginning of the paper, including the two different contracts in family business, remains. The data analysis also shows that there are two different contracts and divergent expectations of both actors. The contracts could be observed in different intensities, but in every case, there are hints of both. We found that information asymmetries exist in intrafamily business succession. These information asymmetries can be assigned to thematic categories, fit into the model of family business succession and ordered by their importance through their frequency of mentions. We show that information asymmetries exist during the entire period of succession. Information asymmetries first increase from before to the during phase and then decrease to the after phase. Additionally, the importance of the thematic types of information asymmetries changes between the phases. Thus, in family firms, some dynamics and processes address information asymmetries. This study offers the first indications that family firms have their own processes for reducing information asymmetries at all stages of the succession process. We also offer deeper insights into the nurturing and development of the successor. The theoretical model illustrates a structured, step-by-step, planned management advancement. Of course, in our case studies, it is more or less an incremental approach, but there is a process. Successors must fulfill requirements and, through them, obtain more free space for decision making over time.

**Figure 15: Overall Model of Information Asymmetries in the Intrafamily Business Succession**



Source: Own illustration.

## 4.5 Discussion

Business succession is a major topic in research due to its critical role in the lifecycle of an enterprise. This study aimed to gain a better understanding of information asymmetries at different stages of the process and in different areas – family and business. Previous research suggests that there are information asymmetries in family business and that agency costs can thus occur (Zellweger & Kammerlander, 2015). However, what types of information asymmetries in family firms exist and what happens during the succession process remained unclear. Thus, our study offers several contributions:



First, we redefine the understanding of business succession from an agency perspective. The study reveals that various levels of information asymmetries exist in family business. This finding is fundamental and has long been overlooked in family-business research. Due to this finding, the study can represent a new starting point for further research on principal-agent behavior in family businesses (Madison et al., 2016). The results are in accordance with the first hints in the literature to the effect that agency conflicts and agency costs could occur in family businesses (Gómez-Mejía et al., 2001). Furthermore, the results reinforce the perception that asymmetric altruism, nepotism, and lack of self-control are all present in family businesses (Bergstrom, 1989; Bernheim & Stark, 1988; Madison et al., 2016; Schulze et al., 2001). We contribute to the literature through a renewal of the understanding of principal-agent roles in family business succession. Usually, the predecessor is considered the principal and the successor the agent. This perception results from the final decision-making competence of the predecessor about the personal selection and the power of decision making derived from holding shares over a long time. However, we investigate numerous role changes. In our study, the successor is also found in the role of the principal, since he already has more information in certain areas than the predecessor. However, this is not the kind of principal-principal problem known from the literature, since our focus is on the management transfer and not on the ownership transfer. Here the successor gradually rises into the role of another principal, whereby the predecessor also remains as a principal until his departure from the company. One explanation of this phenomenon could be the high dependence on internal succession to preserve the socioemotional wealth of the family (Berrone et al., 2012). Furthermore, due to a limited pool of internal candidates, the predecessor is unable to choose whether a selection criterion being a family member (Chrisman et al., 1998). Thus, the dependence is imbalanced and changes the roles.

Second, existing studies show information asymmetries about exit strategies (Dehlen et al., 2014), but information asymmetries inside successful internal successions remained unstudied. To the best knowledge of the authors, this empirical study is the first that investigates concrete information asymmetries in internal business successions. Furthermore, the study sheds light on the types of

information asymmetries, the roles of different actors and, finally, the changes over time. This study supports the assumptions of former studies and conceptual considerations that principal-agent behavior in family firms exists (Lubatkin et al., 2007; Schulze et al., 2003, 2001; Zellweger & Kammerlander, 2015). However, our findings show that there are many more and thematically broader information asymmetries than are explained by the existing theories. Moreover, we found bidirectional information asymmetries in every phase of succession. These bidirectional information asymmetries are in line with the theoretical assumptions of Zellweger and Kammerlander (2015). However, to implement and use governance structures overcoming these information asymmetries, owners of family business first have to know this problem. It is important to conduct research about the reduction of agency behavior, for example, through trusted advisors (Michel & Kammerlander, 2015) or the reduction of agency costs (Zellweger & Kammerlander, 2015). Nevertheless, we must first know more about information asymmetries in intrafamily business successions.

Our third contribution to the literature is the development of a business-succession contracting model. In our study, we propose that two different contracts are inherent in intrafamily business succession: the family contract and the business contract. Based on the work of Lubatkin et al. (2007) and legal and financial knowledge about business succession, we developed a conceptual model (Handler, 1994; Nordqvist et al., 2013). However, the empirical investigation also underlines the existence of both contracts. Parts of the built categories are in the business context, whereas others are in the family context. Beyond the common belief that family firms follow a family first approach (Jaskiewicz et al., 2016; Schulze et al., 2003), we can show that information asymmetries exist in both the family contract and the business contract, and either are able to hinder a successful succession.

The fourth contribution is linked to the change in information asymmetries over time. The existing models of intrafamily business succession already imply mechanisms to reduce information asymmetries. The model of Le-Breton-Miller and colleagues (2004) structures the processes and explicitly mentions mechanisms to reduce the information asymmetries we found in our study. For example, the

model mentions early planning and communication, a structured analysis and development of the successor's abilities and training programs or apprenticeship with explicit and tacit knowledge and social capital transfer (Le Breton-Miller et al., 2004), all of which can reduce some information asymmetries. We identify several information asymmetries in family businesses and show that these information asymmetries increase and decrease over time. This analysis offers the first indications of inherent internal processes in family firms, which can aid the handling of information asymmetries. First measures to reduce the information asymmetries could also be observed in the analysis. Particularly in the transition phase, many participants mentioned that a long period of collaboration between successor and predecessor helped them reduce information asymmetries. Additionally, the information asymmetries, which continue to exist after the before phase and in the during phase, offer interesting hints for a general understanding of family business successions. The expectation about teamwork is less important in the before phase, but it is the most important in the during phase. These information asymmetries are particularly linked to teamwork at the time when the predecessor starts leaving the family firm, but also after the final exit. These information asymmetries shed light on the behavior of predecessors who maintain a hold on the family business. Furthermore, finance is the only information asymmetry that exists in every phase. This asymmetry results from the long-lasting process and the incremental approach of transferring shares and information that arises after succession. The situation is realized by the successor in the after phase. This finding also offers hints of former information asymmetries that are not realized.

The fifth contribution is about the awareness of information asymmetries in family firms. In most of the cases, the family members are unaware of the existence of information asymmetries. Thus, they are also unaware of the consequences of information asymmetries. For example, a consequence could be that there will be no conclusion to the contract if there is too much information asymmetry in the before phase. Another possibility is that because of a too significant information asymmetry, e.g., about the financial situation in the family firm, the succession fails. The successor is unable to overcome financial challenges and preserve the family and firm because of the missing information. Thus, our study contributes to

the initial ideas of governance structures or the inclusion of trusted advisors to overcome or balance potential problems.

## **4.6 Outlook and Conclusion**

Our study comes with limitations that offer opportunities for further research. First, we did not have an opportunity to analyze interviews concerning failed successions, which could be very profitable for the research of information asymmetries in the succession process. However, persuading both parties of a failed succession to participate in an interview about their conflicts is nearly impossible. The second limitation is that we found that repeated interviews in every phase of the succession could be better for the analysis of the information asymmetries because people undervalue asymmetries, conflicts, and problems in retrospect. For a deeper understanding and assignment of the types and consequences (moral hazard and adverse selection) of information asymmetries, interviews with a deeper and closer relationship between the interview partners and with repeating interviews before, during and after the succession would be needed; thus, a panel study would be a recommendation for the future. Furthermore, longitudinal studies, including observations, can offer more hints about the strategies of family firms in overcoming and mitigating information asymmetries. Moreover, opportunistic behavior and the results of such behavior could be analyzed more thoroughly. In this study, the data from the cases were largely used in the phases in which the businesses currently are. However, in cases in which the assignment to the phases was evident, we also assigned the data to previous phases. This approach leads to the third limitation, that is, that the early phases could be overestimated. Moreover, in retrospect, people will mention the most outstanding information asymmetries primarily. In this study, we focus on the one-to-one linkage between predecessor and successor, which is a dyad (Gooty & Yammarino, 2011). Our analysis shows that there is a source of dependency between both actors within this individual-level dyad (Gooty & Yammarino, 2011). We are aware that predecessor and successor are embedded in a specific family business environment that involves other family members. We used additional interview data to reflect and validate the information asymmetries between predecessor and successor in every individual case but did

not analyze the specific influence factors and roles of the other involved family members. We use this approach because we focus on the question of how dyads are expected to form and operate. We did not include multi-level issues. Further studies should also focus on lower units that are housed uniquely in higher level units and focus on the question of how the predecessor is cross-classified by both dyads and group (family and business members) simultaneously (Gooty & Yammarino, 2011). The awareness of information asymmetries in intrafamily business successions also enables a better understanding of the processes and difficulties that can occur. More-specific recommended actions might be possible through the new perspective, which can be helpful for predecessors, successors, practitioners, and consultants in this field. We have shown that the principal-agent theory can help explain problems, conflicts, and perhaps failed successions. In the next step, an attempt should be made to more precisely typecast information asymmetries into the classical types of the principal-agent theory. Examples for the assignment of these themes were found in the interviews, such as in the case of the duration of cooperation between successor and predecessor. The information asymmetries in this category can be classified as a hidden characteristic due to the successor's unawareness of this duration, as a hidden intention because of a planned behavior of the predecessor or successor or as hidden information from one or both. According to the principal-agent theory, in the next step, the consequences of these types of information asymmetries, such as "adverse selection", "moral hazard" and "hold-up", must be identified. Identifying consequences and evaluating them in a scheme that is related to the theory was not possible. Nevertheless, some mentions of conflicts between predecessor and successor were found, and a few of them can be connected with information asymmetries. In line with this finding, we found many possible extremely conflictual information asymmetries in the interviews, particularly when the successor underestimates the financial obligations of the enterprise, which can be described as a hidden characteristic of the enterprise and, consequently, as an adverse selection. In other cases, the successor intends to do something with the enterprise he knows that the predecessor does not want under any circumstances, which can be interpreted as a hidden intention that will lead to moral hazard. This example shows that we would need more-detailed information

from the interviewed persons, including their intentions and motivations, to assign intentions and motivations more closely to these classical types of information asymmetries. Finally, research on mechanisms to reduce information asymmetries in this framing should be analyzed based on the now better-known information asymmetries.

To conclude, our study shows that information asymmetries in intrafamily business successions do exist and that their types can be observed. Our analysis of 14 successions in different phases confirmed our theory of existing information asymmetries in intrafamily business successions. The identified information asymmetries vary thematically and in their frequencies between the phases of succession. Our findings provide a new perspective, offer a better understanding of intrafamily business succession, and complement existing theories.

## **5 Information asymmetries in Intrafamily Succession<sup>4</sup>**

### **ABSTRACT**

The often long-lasting process of intrafamily succession involves contracts for management and ownership transfer that unfold in a complex series of stages. The older and larger a family business, the more heterogeneous the involved family members' interactions and interests can become. This paper investigates drivers of information asymmetries and provides insight into the current research by investigating information asymmetries and their impact during different phases of intrafamily succession. Data from 215 German firms reveal the occurrence of specific information asymmetries during different phases of intrafamily succession. The paper also provides insight into how business families attempt to overcome information asymmetries.

Keywords: Business Succession, Information Asymmetries, Family Firms, Succession Process

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## 5.1 Introduction

Family businesses and their intrafamily dynamics provide an ideal setting for intrigue, conflicts, and family dramas. Over multiple generations, the number of family members increases, with each member holding varying numbers of shares and either working or not working in the family firm. As a result, various self-interests can arise, especially with respect to business succession (Schulze et al., 2003, 2001). The occurrence of a business succession brings the generations together and presents a situation in which family members' personal interests must be aligned (Kotlar & De Massis, 2013; Lubatkin et al., 2007). Despite the existence of anecdotal evidence and even media reports, there remains a lack of research on family businesses in general and information asymmetries in the succession process in particular (Madison et al., 2016).

During a long-term succession process, many designated successors work as employees in the family business, often without holding shares and with limited power and decision rights (Le Breton-Miller et al., 2004). This creates a principal-agent situation because until the final succession decision is made, the predecessors have the power to decide who will be the successor(s) and when the succession will take place (K. S. Lee, Lim, & Lim, 2003; Schell, de Groot, Moog, & Hack, 2019). However, the successors have superior knowledge about their commitment and willingness to succeed (McMullen & Warnick, 2015; Sharma & Irving, 2005). In these situations, information asymmetries can arise and influence the behavior of all parties involved. For example, predecessors could withhold information about the real financial situation of the firm to foster the succession of potential and needed or wanted candidates. On the successor side, they could withhold information about their ideas and plans for the future strategic development of the firm to avoid being excluded as successors due to the differing plans of the successors from those of the predecessors. This type of behavior regarding asymmetric information can impact the satisfaction of the actors who are involved in the succession process (Le Breton-Miller et al., 2004) and hamper the further success of the family business - or even the succession itself. Therefore, the



clarification of issues related to asymmetric information could be crucial for the long-term survival of the company (Cabrera-Suárez et al., 2001).

The intrafamily succession process can be understood as a contracting situation in which agency problems and information asymmetries can occur (Lubatkin et al., 2007). Schell, de Groot, Moog, and Hack (2019) propose that information asymmetries exist in the selection process of intrafamily successors, which are minimized through signaling processes. Zellweger and Kammerlander (2015) provided theoretical assumptions that governance structures promote agency costs in family businesses in succession situations. These results provide strong support for the proposition that agency problems can be expected both in family businesses and among the family members themselves. However, these studies only briefly discuss the underlying cause of these agency costs: general information asymmetries. Dehlen, Zellweger, Kammerlander, and Halter (2014) demonstrated that entrepreneurial exit routes prefer internal successors because they create fewer information asymmetries than external successors do.

There remains a lack of insight into whether there are information asymmetries in intrafamily succession, how those asymmetries are characterized, the extent of asymmetries at different phases in the transfer process and how family members handle asymmetries. Therefore, this study responds to the call of (2016) for additional research into the existence of information asymmetries between the actors in family firms (namely, the predecessors and family-internal successors) and to what extent and in which situations such asymmetries exist. Our research questions are as follows: *What kind of information asymmetries exist in intrafamily successions? How do the information asymmetries change through the different phases of succession? How do involved family members deal with these information asymmetries?*

To answer these questions, we first theoretically derived potential situations and categories of information asymmetries from the business succession literature. Using these categories, we designed a quantitative questionnaire and surveyed 215 German family businesses with 83 predecessors and 132 successors.

This article aims to make several contributions to the literature on intrafamily business successions and agency behavior in family firms. First, to the best of our knowledge, our empirical study provides the first empirical data showing the existence of different information asymmetries in intrafamily successions, which offers further evidence for existing agency behavior in family businesses, especially between family members. Information asymmetries can occur in very different subject areas, and it is to be expected that the same information asymmetries will not occur in all expected subject areas in every family business. In addition, information asymmetries can be very diverse, and their diversity is difficult to capture with standardized questions. Therefore, we created an index that provides insight into the extent of information asymmetries in family firms that enables comparability of the extent of information asymmetries between firms. This index will enable researchers and practitioners to estimate information asymmetries easily in family businesses and intrafamily successions and allows the modeling of the problem and a more global view of the potential means of countering information asymmetries.

Second, we identify several areas in the various phases of intrafamily succession in which information asymmetries can occur. We show that these areas depend on the phase of the succession process, the number of actors involved, their relationships, and their values. Thus, we contribute to the literature on succession processes and add knowledge about specific areas of conflicts, which can occur if information asymmetries exist. In doing so, we increase our understanding of the antecedents of agency behavior in intrafamily business succession by disentangling information asymmetries and offer further evidence for researchers and practitioners, showing that a structured step-by-step succession process is a useful tool for professionalizing family businesses and decreasing information asymmetries (Le Breton-Miller et al., 2004).

The paper is structured as follows: We begin with a theoretical overview of the existing knowledge on family business succession and principal-agent behavior in family businesses. Following this, we propose hypotheses about expectations regarding information asymmetries, their underlying factors and changes over time

during the intrafamily succession process. We then present descriptive statistics to illustrate various types of information asymmetries. Next, we focus on the interplay between the causes of information asymmetries and mechanisms to overcome them. We discuss our results and offer theoretical and practical implications. Finally, we discuss the limitations of our study and areas for future research using our results as a starting point.

## **5.2 Theoretical Background and Hypotheses**

### **5.2.1 Business Successions are Step-by-Step Processes with Three Phases**

Business succession in family firms is widely recognized as a long, step-by-step process occurring when family businesses have been successful on the market for generations (Ahlers, Hack, & Kellermanns, 2014; Churchill & Hatten, 1997; Gersick et al., 1997; Handler, 1994). Through the succession of management and ownership, a new generation is integrated into the family business. This succession also brings new expectations for the firm's development and long-term goals (Kotlar & De Massis, 2013; Nordqvist et al., 2013).

Recent research divides the intrafamily business succession process into phases (Le Breton-Miller et al., 2004; Michel & Kammerlander, 2015; Nordqvist et al., 2013) and identifies several success factors for a successful and sustainable succession. Based on the understanding that succession is a contracting situation in which several contracts can occur (for example, employment contracts for the family-CEO having not yet any shares or contracts that govern the ownership succession) (Lubatkin et al., 2007), we divided the succession process into three phases: the before phase, the during phase and the after phase. In the next part of the paper, we cluster the established success factors identified in the literature. We argue that in the business succession process, involved actors have to be aware of these success factors to ensure a successful succession.

*The before phase* describes the succession process before any management positions are transferred. In the model by Le Breton-Miller et al. (2004), this phase includes determining ground rules and the first stage of nurturing and developing

the successors. During this time, family business owners make all decisions, such as whether and when a succession should occur (duration), along with the conditions under which it should occur and how it should occur (financial and legal succession). This phase also includes expectations regarding whether and for how long the predecessor and the successor should work together in the family business (teamwork). This process can result in expectations such as the type of education the potential successor should have (educational requirements) and whether experiences outside the family business are a useful precondition for succession (Chrisman et al., 1998; Schleppehorst & Moog, 2014).

Whether or not successors enter the family business can depend on their commitment and willingness to succeed (commitment) (Dawson, Sharma, Irving, Marcus, & Chirico, 2015; Jaskiewicz et al., 2015; McMullen & Warnick, 2015; Sharma & Irving, 2005). The predecessors may consider potential successors outside the family pool (Chua et al., 1999) even if the “chosen ones” are still children who do not yet consider themselves successors (selection). However, only the successors know their level of commitment and motivation to work in and take over the family business (Dawson et al., 2015; Jaskiewicz et al., 2015; McMullen & Warnick, 2015). Potential successors may seek education and sometimes desire a career outside the family firm (Zellweger, Sieger, & Halter, 2011).

In this phase, there may be several psychological contracts (Lubatkin et al., 2007). For example, predecessors expect potential successors’ commitment to becoming the new owners and managers even before the process begins. To fulfill these expectations, successors often invest in education, even when no contract has been signed (Daspit, Holt, Chrisman, & Long, 2016), because of the expectation that they will inherit the firm’s shares and become the successors.

*The during phase* describes the phase in which selection takes place and ownership is transferred from one generation to another. In the model by Le Breton-Miller et al. (2004), this phase includes the development phase, in which successor and predecessor work together until the final selection. In this phase, successors should receive hands-on training, improve their level of education and experience and exercise increasing management power (Cabrera-Suárez et al., 2001; Cater & Justis,

2009; Le Breton-Miller et al., 2004). Successors are introduced in networks and invest in building social capital relevant to the family business (Steier, 2001). In general, in this phase, all actors should be involved in succession organization and planning (Cater & Justis, 2009; Le Breton-Miller et al., 2004). During this time, both parties work together to choose future directions and strategies for the family business (Kotlar & De Massis, 2013). They should generate a common understanding of the family business's goals. The model proposes that family members should act as a block and should not pursue heterogeneous interests (Zellweger & Kammerlander, 2015). This period of working together is crucial but depends on the relationship between the involved actors, which influences expectations regarding working together and the time frame for this phase (duration, teamwork) (P. S. Davis & Harveston, 1999; Kellermanns & Eddleston, 2004).

In this phase of the process, the selection of the final internal succession candidate(s) occurs (selection). Previous research implies that there are selection criteria that must be fulfilled by the family-internal successor (educational requirements) for this selection (Chrisman et al., 1998; Schleppehorst & Moog, 2014). In addition to implicit and explicit selection criteria, the decisions of the predecessors often depend either on business logic or family logic (Basco & Calabrò, 2017; Jaskiewicz et al., 2016). Business logic can result in human or social capital being ranked higher in the selection criteria (selection, educational requirement, social capital). Family logic can result in the ranking by birth order or the desire for equality among all descendants (Jaskiewicz, Uhlenbruck, Balkin, & Reay, 2013; Salvato et al., 2012). Consequently, what seems to be fair in the business logic may not be fair from a family perspective. Both logics, which in owner families and family businesses also come along with different goals, have to be aligned over time, which includes contracting situations (Kotlar & De Massis, 2013). In this situation, only the successors know their true commitment, abilities and willingness and motivation to succeed in the family-internal succession process (commitment) (Dawson et al., 2015; McMullen & Warnick, 2015; Schell et al., 2019; Sharma & Irving, 2005).

The financial transfer of a family business can, but must not necessarily, occur in this phase. In most cases, this transfer of financial values is triggered by the predecessors, who perform these actions either to maintain fairness within the family by giving all children some shares (Gersick et al., 1997; Sharma & Irving, 2005) or to reduce tax disadvantages via a step-by-step ownership transfer (financial succession, legal succession) (De Massis, Chua, & Chrisman, 2008; Molly, Laveren, & Deloof, 2010). This financial transfer is crucial for the future position of the successor in the family business, as ownership is associated with power (finance).

*The after phase* describes the time after the selection of the final successor when the transfer of management power occurs and when the roles of the predecessor and successor change (Cater & Justis, 2009). In the after phase, the successor has formally assumed the leadership position and, therefore, can access the company's financial information (finance). However, the ownership transfer is not formally completed in this phase. Thus, both the control rights and the decision about when and how ownership will be transferred remain in some cases with the predecessor (duration, financial succession, legal succession) (Le Breton-Miller et al., 2004). Because the predecessor retains ownership, he or she can use the control rights and demand a position on the advisory board (teamwork, duration) (Cater & Justis, 2009; P. S. Davis & Harveston, 1999). However, the successor is in a position to adjust his or her strategy and use his or her own network to change important positions, such as advisors or stakeholders such as banks, customers and suppliers (Cater & Justis, 2009; Michel & Kammerlander, 2015; Steier, 2001). In this phase, it can become obvious whether important information, such as financial or social networks, is missing (Cabrera-Suárez et al., 2001; Steier, 2001).

### **5.2.2 Information Asymmetries in the Family-internal Succession Process**

In contrast to the neoclassical idea that contracts between parties work perfectly because of the existence of unlimited and perfect information, the concept of information asymmetries assumes that information is not easy to obtain, is not homogeneous (meaning that different contract partners have different qualities and quantities of information) and is neither perfect nor unlimited (Akerlof, 1970;

Rothschild & Stiglitz, 1976; Spence, 1974). As stated by Akerlof (1970), asymmetric information exists when one party has more knowledge than the other in a pre- or post-contracting situation, especially with respect to motivation, behavior and qualities.

We argue, following (Schulze et al., 2003, 2001) that during family business successions, several contracting situations occur (for example, contracts governing employment in the family firm or the ownership succession), and therefore, various types of information asymmetries can exist. Due to the fact that in most family businesses the leadership hand-over takes place without or with only a bit of ownership transfer first (Barnes & Hershon, 1976), we have an ongoing principal-agent situation, because the predecessors are the owners even when the successors take over the management position. These information asymmetries can occur in the before phase, the during phase or the after phase (Chrisman et al., 2004; J. H. Davis, Schoorman, & Donaldson, 1997; Schulze et al., 2001), which can lead to problems during and after the succession process - or even prevent a successful handover.

The superordinate objective of a successful intrafamily succession process is the firm's survival in the hands of the family (Cadieux, 2007) and satisfaction of both family and business goals (Kotlar & De Massis, 2013; McCann III, Leon-Guerrero, & Haley Jr, 2001). Thus, the family-internal business succession process can be influenced by both family-related and business goals (Kotlar & De Massis, 2013). However, business and family-centered goals can be diametrically opposed. There is often an ongoing negotiation process (Aparicio et al., 2017; Kotlar & De Massis, 2013) among family members regarding appropriate goals, regardless of their position in the firm (Jaskiewicz & Klein, 2007; Pieper et al., 2008). In the same context, predecessors and successors also in the intrafamily business succession situation may favor self-interest goals, and if so, they will act to advance their own interests through opportunistic (Sieger et al., 2013) and often limited rational behavior that culminates in information asymmetries between contracting parties in the various phases of intrafamily successions (Madison et al., 2016).

Research shows that during the succession process, potential successors are given increasing responsibilities and, through this, increasing power (Cabrera-Suárez et al., 2001; Le Breton-Miller et al., 2004). However, the predecessor also has power and can influence the information exchange between the parties. The management succession proceeds with the selection of the final successor and the final transfer of leadership (Schell et al., 2019). It can be assumed that the further the process advances, the fewer information asymmetries exist (Handler, 1994) because of activities such as a long-lasting assessment and the nurturing, development and renegotiation of contracts; however, until today, no empirical evidence exists for this phenomenon (Handler, 1994; Le Breton-Miller et al., 2004). Additionally, to reduce tax disadvantages, a step-by-step ownership transfer can occur involving both the potential successor and family members who will not receive management power (De Massis et al., 2008; Molly et al., 2010). This partial transfer of shares can be seen as a signal that this successor will ultimately be selected as the final management and ownership successor (Schell et al., 2019). This can, but does not have to, foster the information-exchange process by building trust and better aligning individual interests. However, through the transfer of shares, the potential successor receives additional rights to access important documents and information such as contracts and balance sheets (Handler, 1994; Le Breton-Miller et al., 2004). Subsequently, with ownership transfer, additional interests and engagements are connected, which can create a demand for information. We argue that management and ownership transfers are connected and that the dynamics between those transfers can foster information asymmetries on the one hand and reduce them on the other hand, depending on the situation. However, in addition to the possibility that ownership shares are transferred during the business succession process, it is assumed that additional management power is accompanied by the legal right of access to information (Cabrera-Suárez et al., 2001). For example, responsibility for staff is accompanied by access to staff records and staff costs. Procurement is closely connected to insights into important financial documents. These rights enable potential successors to obtain additional knowledge and information. Accordingly, we propose the following hypothesis:



*H1: Different kinds of information asymmetries can be observed in all phases of a family-internal succession process, with a decreasing manner over time.*

Transferring information to a group instead of one person requires further resources. If this information is crucial to reaching a goal, which in this case is to become the final successor, this situation can foster and increase the potential for conflicts (Avloniti, Iatridou, Kaloupsis, & Vozikis, 2014; Cabrera-Suárez et al., 2001; Friedman, 1991; Jayantilal, Jorge, & Palacios, 2016). The more potential successors in the pool (children, nieces and nephews and others), for example, because of a cousin consortium (Gersick et al., 1997), the greater the likelihood of information asymmetries and individual interests that are diametrically opposed (Taylor & Norris, 2000). This is especially likely to occur in the before and during phases of succession (Bertrand & Schoar, 2006; Schulze et al., 2001). We propose that decreasing the number of potential successors earlier and choosing a successor will allow an earlier transfer of information to a limited pool of candidates. This also puts potential successors in a position to search for information on their own (Cabrera-Suárez et al., 2001) if they are aware that only well-informed successors can use the resources of the family firm efficiently and effectively. Both the predecessor and the successor can diminish potential information asymmetries. Making a declaration to the family and all stakeholders (Steier, 2001) about who will become the final successors can lead to a higher level of commitment from the candidates, generate more trust and diminish the risk of information asymmetries (Dawson et al., 2015; Handler, 1990; McMullen & Warnick, 2015; Sharma et al., 2001). This leads to the following hypothesis:

*H2: Higher numbers of potential candidates will produce higher numbers of information asymmetries.*

Regardless of the types of goals that individual family members might have during the succession process, these family members often share common basic values because they have been socialized in the same way (Aparicio et al., 2017; Astrachan Binz, Ferguson, Pieper, & Astrachan, 2017; Chrisman et al., 2012; Zellweger, Nason, Nordqvist, & Brush, 2013). The potential and actual successors' general behavior can be influenced by their upbringing and shared stories about the family

business or values from older generations (Jaskiewicz et al., 2015; Kammerlander, Dessì, Bird, Floris, & Murru, 2015). Communication patterns in families are shaped by this socialization (Koerner & Fitzpatrick, 1997, 2002). Upbringing can also influence the successor's relationship with both his or her family and the family business. Socialization in families shapes both the rules, values, and norms of individuals and the psychological ownership of the family business by the next generation.

Kotlar and De Massis (2013) have shown that goal alignment is an ongoing negotiation process that involves coalitions and social interactions among family members. These interactions influence the family's behavior and intentions so that both actors perceive a greater level of trust, reciprocity, and exchange (Arregle, Hitt, Sirmon, & Very, 2007). As a result, sharing the same values can result in fewer information asymmetries. Thus, we formalize the following hypothesis:

*H3: If the predecessor and family-internal successors share the same values, there will be fewer information asymmetries.*

As in the general literature on information asymmetries and how to avoid them (Akerlof, 1970; Garmaise & Moskowitz, 2004), the same effects would be expected in the context of intrafamily succession. This benefit could be part of either professionalizing (Dekker, Lybaert, Steijvers, & Depaire, 2015; Dekker, Lybaert, Steijvers, Depaire, & Mercken, 2013; Stewart & Hitt, 2012) or structuring the intrafamily succession process to enable all involved individuals to achieve a successful family business transfer. In 1988, Lansberg discovered that a lack of succession planning is one of the primary reasons that many family firms do not outlive their founders. These plans can result in both formal and informal actions (Botero, Gomez Betancourt, Betancourt Ramirez, & Lopez Vergara, 2015), such as having a business succession plan developed and having written selection criteria for choosing the successor (Chrisman et al., 1998; Schleppehorst & Moog, 2014). Actively planning and completing training for the successor, including a step-by-step integration process, allows a structured and long-term information-exchange process (Cabrera-Suárez et al., 2001; Le Breton-Miller et al., 2004). Determining the company's value and/or performing due diligence (Wennberg et al., 2011),

along with ensuring the successor's access to all financial documents, can decrease the existence of information asymmetries (Wasserman, 2003; Wennberg et al., 2011). Additionally, contracts that include guidelines for the behavior and decision-making competences of the predecessor and successor can foster information exchange between the actors (Aronoff, McClure, & Ward, 2003; Botero et al., 2015).

A structured succession process enables an organization to monitor potential candidates and fosters a structured and target-aimed process. As Chrisman, Chua, Kellermanns, & Chang (2007) have shown, monitoring family managers can increase a firm's performance. They also argued that goal misalignment could have a negative impact on firm performance. Therefore, managing the goal alignment process through a strategically planned succession process enhances the possibility of a successful succession. Goal alignment can also be managed through the integration of governance structures. Zellweger and Kammerlander (2015) first described assumptions as to why different governance structures encourage agency costs in family businesses. Their study focused on later-generation family businesses and developed a framework for governance structures such as family offices and trusts and the agency costs that result from these structures. The discussion of agency costs included suggestions for family business owners on how to manage information asymmetries. Following Zellweger and Kammerlander (2015), governance structures can either decrease or increase agency costs. We propose that the same concept applies to information asymmetries. We propose that the existence of governance structures in family firms, including clear responsibility for the business succession process and rules for managing communications, decreases information asymmetries (Botero et al., 2015; Suess, 2014; Zellweger & Kammerlander, 2015). In summary, we argue that actions such as informal and formal tools and processes, which can include implemented governance structures, can minimize information asymmetries during and after family business successions.

*H4: Actions such as informal and formal tools and processes minimize information asymmetries in internal succession and help to counteract their emergence.*

## **5.3 Methodology**

### **5.3.1 Research Sample**

For this analysis, we worked with a sample of family businesses that fulfilled the following criteria: the firm must be a self-assessed family business, at least 50 percent of the shares must be held by the family, and at least one family member must be involved in managing the firm. Moreover, the family business either should be preparing for a succession (before), be involved in an ongoing succession process (during) or has to have completed the succession process (after) (Chua et al., 1999). Following this idea, our dataset includes 27.4% before-succession firms, 32.1% during-succession firms and 40.5% after-succession firms in regard to the hand-over of management and leadership position and no or only partly hand-over of shares and ownership. To ensure that only predecessors and successors were surveyed, we clarified the role of the participant in both the firm and the succession process.

To assess family businesses, our paper used address data from the Hoppenstedt database, which included the addresses of (5.1 million) German businesses and their family business status, size, and industry sector. Ten thousand family business addresses were randomly selected, mirroring the range of firms in the database with respect to age, size and industry sectors and sales to generate a representative address pool. In 2015, a survey was provided to the participants either in a printed version or in an identical online version via e-mail; 4.8 percent of the companies responded to the survey. Our final sample excluded all cases with missing values, outliers that could be identified as input error, cases in which neither the predecessor nor the successor answered the questionnaire and cases in which the company did not fulfill the before mentioned criteria. In our analysis, we surveyed firms in all succession phases since it would be possible that in a survey of firms that have already completed the process, smaller or already resolved information asymmetries from the earlier phases were no longer present in the memory of the respondents and would therefore not be adequately represented. Thus, we generated

data on information asymmetries in internal family business successions during the three phases of transfer.

To test whether a nonresponse bias was present, we analyzed whether the answers of the first respondents differed from the answers of the last respondents. We sorted the dataset by the return date and divided it into 3 parts (Oppenheim, 2000). We found no statistically significant differences between these groups for any of the outcome variables (Armstrong & Overton, 1977; Chrisman et al., 2004; Dehlen et al., 2014). To assess the extent of the sample representativeness and the sample selection bias, we randomly selected the survey participants. Additionally, we compared the descriptive data of our dataset to the descriptive data of other studies on family businesses. The average age of the firms in our dataset (73 years) was comparable to those of other datasets of German family businesses (e.g., Sieger et al. (2013): 75 years; Dehlen et al. (2014): 62 years). The average age of the owner-manager was also comparable across studies: 49.6 years in our data versus 45 years (Dehlen et al., 2014), 51 years (Zellweger, Kellermanns, Chrisman, et al., 2012) and 46 years (Sieger et al., 2013) in the data of earlier studies. To assess common method bias, we designed the questionnaire and the order of the questions in a way that the respondents' answers were not influenced by the researchers' underlying expectations (Podsakoff et al., 2003). Additionally, we ensured the anonymity of all respondents to reduce any social desirability bias (Podsakoff et al., 2003). Furthermore, we performed a Harman one-factor test (Podsakoff & Organ, 1986). An exploratory factor analysis with all variables in the regression (model 8) led to a 5-factor solution with eigenvalues greater than one. Taken together, these factors explained 55.74% of the total variance. The first factor explained 15.74% of the variance, which suggests that common method bias was not a concern in our study (Podsakoff & Organ, 1986). A bias attributable to possible endogeneity could not be excluded because there are no appropriate instruments available to assess this in our independent variables (Hamilton & Nickerson, 2003).

### **5.3.2 Variables**

**Dependent Variable:** In this study, we focused on one dependent variable: information asymmetries. Because family business research does not provide a

measurement scale for information asymmetries and more research is needed in this area (Madison et al., 2016), we develop first single item measurements to check for information asymmetries and on top of this create an index combining these single items measuring the existence and strength of information asymmetries overall. To do so, we thoroughly elaborated these single item variables observing information asymmetries according to state-of-the-art literature on family business succession (see table 9).

At the current stage of business succession literature, the areas of information asymmetries are mostly theoretically motivated and derived from the business succession literature (Zellweger & Kammerlander, 2015). Through a literature review, we identified success factors of planned intrafamily successions. We do this because, when information asymmetries arise, the success of the transfer of a family business can be diminished or even completely impeded. To use these success factors, we propose that all involved actors have to be aware of these success factors and have the same knowledge and, consequently, are able to fulfill and use these success factors. The identified success factors have been summarized thematically in the following categories: duration, teamwork, finance, financial succession, legal succession, social capital, educational requirements, commitment, and selection. Table 9 provides a detailed summary of the identified success factors derived from the literature, the ideas for the categories for the index, and the questions we asked the respondents.

**Table 9: Success Factors for Business Succession as Fundament of the Information Asymmetry Index**

Index parts	Derived content out of the success factors from the literature for the index	Sources	Use in the source/success factor	Statements in the survey <sup>1</sup>
1. Duration	Information asymmetries regarding the communication of and adherence to the succession deadline.	(Handler, 1994)	“Succession as a process.”	Successor: The handover date was/will be clearly communicated and adhered to by the predecessor. Predecessor: The handover date was/will be clearly communicated and adhered to by you.
		(Le Breton-Miller et al., 2004)	“Long-term, dynamic and iterative nature of succession.”	
		(Cabrera-Suárez et al., 2001)	“From the process perspective, succession is considered a multistage process.”	
		(P. S. Davis & Harveston, 1999)	“Because the success of the business may hinge on its ability to maintain internal stability, interventions should be aimed at clarifying the extent to which the prior (founder’s) generation will remain active and involved in the organization’s activities, including a time line for a complete succession transition.”	
		(Cater & Justis, 2009)	“Here, the founder retains a significant role in the business, even after the next generation has supposedly taken over. The term refers to an inappropriate involvement, possibly causing disruption in the firm.”	
2. Teamwork	Information asymmetries regarding the cooperation of the predecessor and the successor. Mutual adherence to arrangements.	(Aronoff et al., 2003)	“To safeguard the business, the siblings and cousins need education on effective ownership, business governance and teamwork.”	Successor: The transferor has (so far) adhered to all agreements. Predecessor: You have (so far) adhered to all agreements. Successor: You have (so far) adhered to all agreements. Predecessor: The successor has (so far) adhered to all agreements.
		(Kellermanns, Eddleston, Sarathy, & Murphy, 2012)	“Family member reciprocity as an aspect of family influence that embodies commitment, teamwork, and family support.”	
		(P. S. Davis & Harveston, 1999)	“Research by Lansberg and Astrachan (1991) suggests that the quality of the work relationship between the owner-manager and the successor can affect family cohesion.”	
3. Finance	Information asymmetries regarding knowledge of the financial situation and financial plans of the company (provisions and risks).	(Molly et al., 2010)	“Significant impact of succession on the financial structure of family firms.” “Reduced readiness to take risk.”	Successor: I knew/know the financial situation of the company at the time of transfer. Predecessor: My successor knew/knows the financial situation of the company at the time of the transfer. Successor: I know: All financial plans (provisions and risks). Predecessor: The successor knows: All financial plans (provisions and risks).

Index parts	Derived content out of the success factors from the literature for the index	Sources	Use in the source/success factor	Statements in the survey <sup>1</sup>
4. Financial succession	Information asymmetries regarding financial succession. Clear communication about how ownership of the company is to be transferred.	(Cabrera-Suárez et al., 2001)	“A successful transfer of ownership depends on multiple factors that influence its correct development and guarantee the viability of the business, the family integrity, and the satisfaction of the participants’ needs and interests.”	Successor: The successor has clearly communicated before and during the succession how the ownership of the company will be transferred. Predecessor: You have clearly communicated before and during the succession how the ownership of the company will be transferred.
		(Thomas, 2002)	“The family business owner must plan to manage financial pressures if he or she wishes to sustain family ownership control.”	
		(Molly et al., 2010)	“Successors often need to borrow high amounts of capital to buy the shares of the company.”	
5. Legal succession	Information asymmetries regarding knowledge of the contracts for legal succession (partnership agreement, prenuptial agreement of the predecessor, testament of the predecessor).	(Cabrera-Suárez et al., 2001)	“The successor can also absorb tacit knowledge about the business while at home.”	Successor: I know: Important contracts (shareholder agreement, marriage agreement of the predecessor, testament of the predecessor, etc.). Predecessor: The successor knows: Important contracts (shareholder agreement, marriage agreement of the predecessor, testament of the predecessor, etc.).
		(Le Breton-Miller et al., 2004)	“The transfer of knowledge -explicit and tacit -may start at the dining table, subtly and imperceptibly, build up during summer jobs at the company, and continue through a career at the FOB.”	
6. Social capital	Information asymmetries regarding knowledge of the contacts central to the company reference people for the company (tax consultant, bank consultant, lawyer, etc.).	(Steier, 2001)	“The cumulative effect of networking activity is that, for many enterprises, there is much value residing in individual and organizational social capital.” “Social capital is generally conceptualized as the resources embedded in relationships.” “Social capital increases the efficiency of information diffusion.”	Successor: I know: Central contact persons of the company (tax consultant, bank consultant, lawyer, etc.). Predecessor: The successor knows: Central contact persons of the company (tax consultant, bank consultant, lawyer, etc.).
7. Educational requirements	Information asymmetries regarding educational requirements (vocational training or academic studies) and work experience.	(Schlepphorst & Moog, 2014)	“Remarkably, education is the only class for which we find slight differences in terms of the perceived value attached.” Factors: Human capital > Education > Educational qualifications such as university degrees or systematic training and Human capital > Occupational experience > Occupational experience or apprenticeship(s) outside the family firm.	Successor: My education (apprenticeship or studies) was/is very important to the predecessor for the selection as successor. Predecessor: The training (apprenticeship or studies) of the successor was/is very important to me for the selection as successor. Successor: For the predecessor, my professional experience was/is very important for the selection as successor. Predecessor: The professional experience of the successor was/is very important to me for the selection as successor.
		(Chrisman et al., 1998)	“Of course, competence is an important factor in selecting a successor, as evidenced by the fact that decision-making and interpersonal skills were rated fourth and fifth in importance.”	



Index parts	Derived content out of the success factors from the literature for the index	Sources	Use in the source/success factor	Statements in the survey <sup>1</sup>
8. Commitment	Information asymmetries regarding the successor's commitment to take over the company.	(Sharma & Irving, 2005)	"Commitment as a force experienced as a frame of mind or psychological state that compels an individual toward a course of action of relevance to one or more targets."	Successor: It is/was your wish to take over the company. Predecessor: It was/is the wish of the successor to take over the company.
		(McMullen & Warnick, 2015)	"...both the motivation and commitment of the child are critical to the occurrence of succession."	
		(Dawson et al., 2015)	"Family firms that are characterized by organizational commitment present higher levels of loyalty, interdependence, and reciprocal altruism, which are socially embedded resources that contribute to supporting long-term organizational goals and the firm's success."	
		(Chrisman et al., 1998)	"We found that respondents considered "integrity" and "commitment to business" the most important attributes of successors."	
9. Selection	Information asymmetries regarding the selection of the successor. During the entire succession process, it was certain that the successor should succeed.	(García-Álvarez, López-Sintas, & Saldaña Gonzalvo, 2002)	"Research indicates that many families opt to create a team of brothers and sisters who share ownership and management (Aronoff, 1998; Gersick, Lansberg, Desjardins, & Dunn, 1999)-that is, they open the possibility to become potential successors to all of their descendants."	Successor: It was clear during the entire succession process that you would be the successor. Predecessor: The choice of the successor was/is certain for you during the entire succession process.
		(De Massis et al., 2008)	"Without periodic feedback about how things are progressing, the potential successor may become frustrated and decide to leave the family business, thus preventing succession."	

<sup>1</sup>All items were measured with equally oriented 5-point Likert scales ranging from 1, "I fully disagree," to 5, "I fully agree."

In the first step of the analysis, the paper addresses (single) items based on a literature review and questions in this field about whether, how and in which fields, which are identified as important influence factors in a succession situation, different information asymmetries can occur, and if they do, at which phases of the internal family business succession process. In the second step, we determined how these (single) items relate to each other and combined them into an interpretable variable called an *information asymmetries index* that was designed to measure the level of information asymmetry. We are aware that generating an index means at the same time losing deeper information due to the aggregation of variables. But, in order to obtain a global indicator for the extent of information asymmetries in a company, since the measurement and comparison of information asymmetries across companies are otherwise not adequate due to the heterogeneity of family businesses, the variety of possible information asymmetries and related topics. The index was calculated as the mean of the nine items named above that represent different areas of information asymmetries. First, the mean value for each category was calculated. Second, from these mean values for the categories, an overall mean value for the information asymmetries was generated for every surveyed case. The reliability of the *information asymmetries index* was tested with Cronbach's alpha (Cronbach, 1951) and showed a value of 0.794. The index helped us analyze and interpret the different effects of important aspects and variables on an aggregated level - such as the impact of the phase of the process or the number of potential successors - on the extent of information asymmetries.

**Independent Variables:** The following variables were included in the analysis to examine the effects of different factors on information asymmetries, derived from the discussion of current research in the field. The variable *phase* indicated whether the family-internal succession process of the respondent's firm was classified as being in the before, during, or after phase (Le Breton-Miller et al., 2004; Nordqvist et al., 2013). As discussed before, the information asymmetries should diminish over time from stage to stage. To measure *shared values*, a 5-point Likert scale was used, and the respondents had to disagree or agree with the following statement: "The family members share the same values." This question was taken from the F-PEC Scale from Astrachan, Klein, & Smyrnios (2002). We added the *number of*

*overall potential successors* to address the fact that more than one succession candidate was being considered and that this could affect the emergence of information asymmetries.

To assess results regarding the effects of instruments and measures to decrease information asymmetries, three variables were generated. First, we asked generally whether “Measures were taken in the business succession process to prevent or reduce information asymmetries” on a 5-point Likert scale regarding whether the respondents agreed or disagreed. Second, “*Clear responsibilities or governance structures*” were measured following the recommendations of Zellweger and Kammerlander (2015). For this variable, we asked whether clear responsibilities or governance structures for predecessor and successor were used to avoid the emergence of or reduce different information asymmetries. These independent variables were measured with single items because there are no validated constructs for the corresponding instruments and the advantages of single-item measures should be used. Single items are easy to understand, do not require complex psychological backgrounds (Hair, Tatham, Anderson, & Black, 1998) and lead to shorter, easier-to-understand questionnaires without repetition or divergence (Petrescu, 2013). Additionally, studies have demonstrated that there are no differences in the predictive validity of multiple-item and single-item measures (Bergkvist & Rossiter, 2007). Finally, the “*tools and processes index*” calculated the sum of five often-mentioned processes and tools in the succession literature to plan the family-internal business succession process: (1) financial transparency/due diligence, (2) communication plan/strategy, (3) contract for behavior of the predecessor after succession, (4) list of criteria for the successor and (5) training for the successor (Cabrera-Suárez et al., 2001; Le Breton-Miller et al., 2004; Molly et al., 2010; Steier, 2001). These items were measured dichotomously and were coded as 1 when the process or tool was used and 0 when it was not used. The reliability of the *tools and processes index* was tested with Cronbach’s alpha and was very high, with a value of 0.961.

**Control Variables:** To ensure that other environmental factors not captured by our theoretical discussion or measured by the discussed independent variables did not

affect our results, we included several control variables. The *number of actual successors* shows how many actual successors are involved in the succession process (Gersick et al., 1997). By asking the respondents about the number of “*generations*” running the firm, we tested for an influence of possible learning effects from previous successions (Cabrera-Suárez et al., 2001). Furthermore, we added the “*age*” of the respondent, and we added the gender of the respondent as a dummy variable called *female*, coded as 1 when the respondent was female (Sieger et al., 2013). Additionally, we added the role as “*predecessor*” coded as 1 when the respondent was the predecessor, to check whether there is an influence depending on whether the predecessor or the successor answers the questionnaire.

Furthermore, the “*degree of kinship*” between the predecessor and successor of the firm may influence information asymmetries because the more closely related the individuals, the more familiar they might be with each other and the firm. Firm size may also influence information asymmetries. It has been shown that small, medium, and large firms have significantly different (governance and organizational) structures (Haveman, 1993) and that larger companies have a greater number of differing interests at stake. Therefore, we controlled for the number of “*employees*”, which is a generally accepted measure of company size. To check for a general impact of “*industry*”, respondents had to classify their firm as one of 22 *industries measured by* the European Community NACE codes (European Commission NACE Rev. 2). The answers were aggregated into three sectors: (1) *agriculture and forestry*, (2) *manufacturing industry*, and (3) *service*. We used service as a reference category in our regression analyses. In table 10, we provide a detailed overview of the variables used for the regression models and explain their operationalization.

**Table 10: Variable Description Table**

Variable	Description
1. Information asymmetries index	Index consisting of the sum of nine areas of information asymmetries: (1) duration; (2) teamwork; (3) finance; (4) financial succession; (5) legal succession; (6) social capital; (7) educational requirements; (8) commitment; and (9) selection. All items are measured with equally oriented 5-point Likert scales. The Cronbach's alpha of this variable is 0.794.
2. Phase	Actual succession phase (1 before, 2 during, 3 after).
3. Shared values	The family members share the same values (5-point Likert scale).
4. Number of overall potential successors (family, employees and external)	The respondent had to indicate how many successor candidates other than the current successor were conceivable.
5. Measures taken against information asymmetries	Measures have been taken in the business succession to prevent or reduce different information asymmetries (5-point Likert scale).
6. Clear responsibilities / governance structures	As a measure to avoid the emergence of or to reduce different information asymmetries, we used the question asking whether there are clear responsibilities and governance structures for predecessor and successor. Dummy 1 equals yes.
7. Tools and processes index	Index consisting of the sum of five possible processes and tools that could be used during business succession: (1) financial transparency/due diligence; (2) communication plan/strategy; (3) contract for behavior of the predecessor after succession; (4) list of criteria for the successor; and (5) training for the successor. The items are measured dichotomously. 1 represents that the process or tool was used. The Cronbach's alpha of this variable is 0.961.
8. Number of actual successors	Number of successors in the current business succession.
9. Generation	Actual generation of the firm.
10. Age	Age of the respondent.
11. Female	Dummy equals 1 for females.
12. Predecessor	Dummy equals 1 for predecessors.
13. Degree of kinship	Degree of kinship between the predecessor and successor of the firm (equals 1 for parents, children and siblings; 2 for grandparents, grandchildren and nephews and nieces; 3 for great-grandparents, great-grandchildren and grandnephews and grandnieces).
14. Employees	Number of employees.
15. Industry sector 1 (dummy) agriculture and forestry	Industry sector dummy equals 1 for the agriculture and forestry industry.
16. Industry sector 2 (dummy) manufacturing industry	Industry sector dummy equals 1 for the manufacturing industry.

## 5.4 Analyses and Results

### 5.4.1 Descriptive Data

Table 11 presents the means, standard deviation, and minimum and maximum values for the dependent, independent and control variables used in the models. Table 12 shows the correlations and the variance inflation factor (VIF).

**Table 11: Descriptive Statistics**

Variables	Mean	SD	Min	Max
1. Information asymmetries index	1.74	0.64	1.00	4.89
2. Phase	2.13	0.82	1.00	3.00
3. Shared values	4.40	0.86	1.00	5.00
4. Number of overall potential successors (family, employees and external)	1.14	1.21	0.00	6.00
5. Measures taken against information asymmetries	3.40	1.39	1.00	5.00
6. Clear responsibilities / governance structures	0.44	0.50	0.00	1.00
7. Tools and processes index	2.78	2.26	0.00	5.00
8. Number of actual successors	1.49	0.69	1.00	4.00
9. Generation	2.75	1.34	1.00	6.00
10. Age	49.78	14.20	20.00	80.00
11. Female	0.19	0.39	0.00	1.00
12. Predecessor	0.39	0.49	0.00	1.00
13. Degree of kinship	1.09	0.39	1.00	3.00
14. Employees	202.80	733.70	1.00	6500.00
15. Industry sector 1 (dummy) agriculture and forestry	0.03	0.18	0.00	1.00
16. Industry sector 2 (dummy) manufacturing industry	0.53	0.50	0.00	1.00

*N*=215; SD: standard deviation

**Table 12: Correlation Matrix**

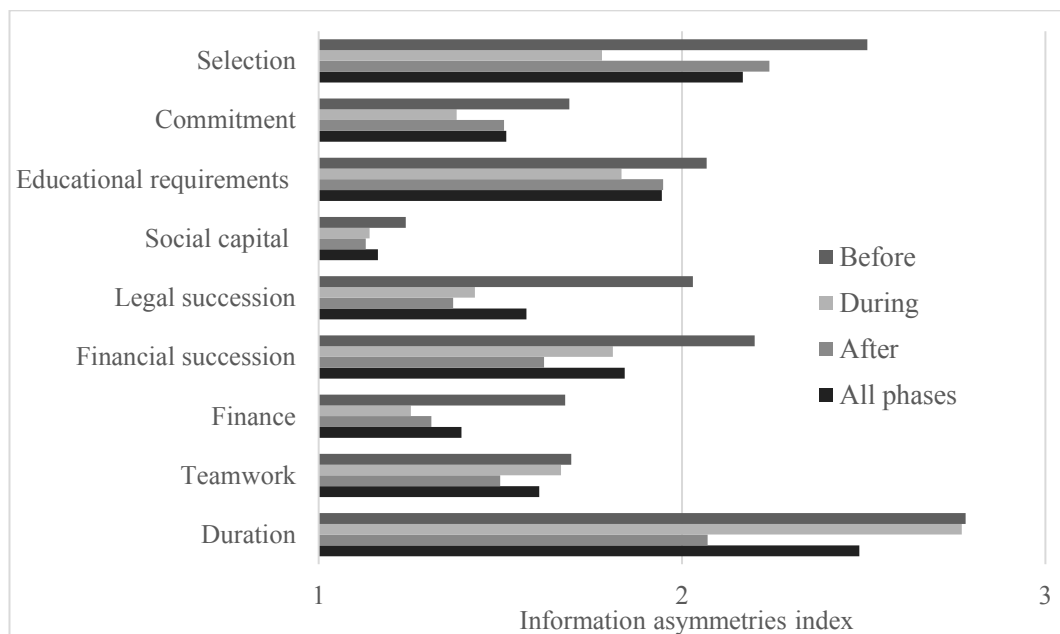
Variables	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	VIF Model 8
1. Information asymmetries index																
2. Phase																1.549
3. Shared values																1.167
4. Number of overall potential successors (family, employees and external)																1.618
5. Measures taken against information asymmetries																1.340
6. Clear responsibilities / governance structures																1.307
7. Tools and processes index																1.191
8. Number of actual successors																1.585
9. Generation																1.249
10. Age																3.025
11. Female																1.094
12. Predecessor																3.276
13. Degree of kinship																1.081
14. Employees																1.159
15. Industry sector 1 (dummy) agriculture and forestry																1.100
16. Industry sector 2 (dummy) manufacturing industry																1.214

Significance levels: \* p<.05, \*\* p<.01, \*\*\* p<.001 (two-tailed) N=215.

The tables show that correlations exist and that the VIF indicator ranges between 1.094 and 3.276, what is below the recommended threshold value. Thus, no multicollinearity is present in our data (Hair et al., 1998). The highest VIF value (3.276) is caused by the expected high correlation between the characteristic to be a predecessor and the high age of the person (.723) associated with it. The high correlation between the number of overall potential successors and the number of actual successors (.543) was also to be expected, but both do not have an impact on the model.

The first goal of the paper is to observe information asymmetries in family-internal successions at different phases and stages. Thus, the single item variables measuring information asymmetries were analyzed as well as the aggregated index. Figure 16 shows these data.

**Figure 16: Information Asymmetries by Succession Phases**



Source: Own illustration.

As shown in figure 16, information asymmetries in the intrafamily business succession process can be observed in all subject areas derived from the literature. We especially observe information asymmetries concerning timing and selection issues, regardless of the phase of the succession process. Moreover, as shown in figure 16, we can deliver first insights that in all single items as well as regarding



the index, that the information asymmetries are highest in the before phase and decreasing over time until the after phase. Regarding some items, the highest information asymmetries can be observed in the before and after phase with a less intense information asymmetry occurrence in the during phase, which could be triggered by the decision stages being more pressuring in the beginning of the succession and right before finishing it (Le Breton-Miller et al., 2004).

The aggregation of the single items to an index did not influence these results. With the existence of information asymmetries and a decline in information asymmetries over time in the family-internal succession process, this finding provides the first evidence to answer our research questions and supports our first and second hypotheses even on a descriptive level not delivering any causal results, but first evidence.

#### **5.4.2 Regression Analysis**

We used ordinary least squares (OLS) regressions to analyze our hypotheses and the effects of the discussed independent variables on information asymmetries in family-internal business successions. We analyzed the effects in 8 models, as shown in table 13.

**Table 13: OLS Regressions**

Independent variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
2. Phase		-.319***						-.226**
3. Shared values			-.408***					-.321***
4. Number of overall potential successors (family, employees and external)				.197*				-.122
5. Measures taken against information asymmetries					-.289***			-.154*
6. Clear responsibilities / governance structures						-.310***		-.160*
7. Tools and processes index							-.338***	-.209***
8. Number of actual successors	-.029	-.041	-.076	-.131	-.037	.048	.037	-.062
9. Generation	.026	.020	-.005	.025	.074	.066	.005	.031
10. Age	-.096	.083	-.181	-.090	-.062	-.079	-.072	.008
11. Female	.042	.013	.075	.030	.068	.041	.084	.078
12. Predecessor	-.085	-.305**	.076	-.097	-.023	.042	-.077	-.061
13. Degree of kinship	.025	.019	.009	-.009	.013	-.016	.027	-.014
14. Employees	.122	.169*	.116	.085	.090	.109	.101	.091
15. Industry sector 1 (dummy) agriculture and forestry	.105	.067	.104	.117	.119	.118	.081	.085
16. Industry sector 2 (dummy) manufacturing industry	-.049	-.037	-.033	-.053	-.079	-.054	-.041	-.045
Observations	215	215	215	215	215	215	215	215
$R^2$	.072	.143	.221	.098	.146	.159	.178	.404
<i>Adjusted R<sup>2</sup></i>	.032	.101	.183	.053	.105	.118	.137	.359
$F$	1.779	3.412	5.793	2.207	3.498	3.855	4.408	8.995
Durbin-Watson	1.616	1.674	1.701	1.581	1.624	1.718	1.629	1.804

Significance levels: \* p<.05, \*\* p<.01, \*\*\* p<.001.  
Standardized estimation coefficients are reported.

In the first regression, we started with the control variables. In the subsequent regressions, we ran three models (Models 2, 3 and 4), each of which included one of the independent variables discussed in the theory section and following the guidelines of our hypotheses regarding the drivers of information asymmetries. In the subsequent models (Models 5, 6, and 7), we checked for variables that can decrease information asymmetries. In the final model (Model 8), we integrated all the variables to check for robustness of the individual results. All models are significant (F) and provide a greater explanation of the spread of information asymmetries by including the additional variables (adjusted R<sup>2</sup>).

The first regressions testing the influence of the phases of family-internal succession processes showed an impact of family values and an effect of the number of overall potential successors (table 13, models 2, 3 and 4). These effects were observed at a highly significant level in the earlier phases, with more information asymmetries occurring earlier and fewer occurring later (H2). This result also remained robust when testing the phases as dummy variables with the during phase as an anchor. Additionally, the number of overall potential successors significantly increased the information asymmetries in the phases (H3). There was a strong, significant negative effect of common and shared values between predecessors and successors on the existence of information asymmetries (H4). The fewer the shared values between the parties, the greater the information asymmetries. These results remained robust when all variables were included in the final model.

The second set of regressions (table 13, models 5, 6 and 7) that tested the effects of measures taken to reduce information asymmetries revealed highly significant results that showed a decrease in information asymmetries when measures were implemented during the succession process (H5). Additionally, Models 6 and 7 showed significant effects of “clear responsibilities/governance structures” and “tools and processes” of planning specific issues used during the succession process. In both cases, the information asymmetries decreased significantly (H5) when the variable was included. Again, the results remained robust in the overall model that included all variables.

We also tested our models with other control variables for the industry. We included 22 industries instead of the industry sectors and obtained the same significance levels, directions, and effect sizes. Furthermore, we calculated the same regression models with a different dependent variable. To this end, we used the self-assessment question concerning information asymmetries and obtained similar significance levels, directions, and effect sizes for the independent variables, which supports the robustness of our results.

## 5.5 Discussion and Contributions

Although it is widely claimed that in a family business, there are limited information asymmetries and agency problems among the family members, this claim is not self-evident (Madison et al., 2016). Although many studies of family-internal succession and family businesses have shown a positive impact of family information asymmetries and agency problems (Madison et al., 2016), most of these studies neglected the heterogeneity of the involved family members and owners, which might foster information asymmetries (Chrisman et al., 2012; Nordqvist et al., 2014). Additionally, most of the recent studies found empirical support only for the notion that there are information asymmetries and agency problems in family business but generally lacked empirical evidence (Dehlen et al., 2014; Michel & Kammerlander, 2015; Zellweger & Kammerlander, 2015) and a more detailed understanding of how information asymmetries occur in which areas.

In light of these results, we argue that it is beneficial to further address the question of whether and the extent to which information asymmetries exist in family firms, especially during the intrafamily succession process, by asking the following research questions: *What kind of information asymmetries exist in intrafamily successions? How do the information asymmetries change through the different phases of succession? How do involved family members deal with these information asymmetries?*

This study extends the existing knowledge about family-internal business successions from the perspective of information asymmetry and responds to the call for research examining whether the information in family businesses is asymmetric (Madison et al., 2016). This aim was achieved by broadening the perspectives on what types of information asymmetries arise during the various phases of succession. Moreover, we investigated how family businesses attempt to decrease information asymmetries.

Our study is the first to provide quantitative data on a broad range of information asymmetries in family firms. Based on a thorough literature review and an empirical study, we are able to identify several kinds of information asymmetries that occur

during business successions. Through measuring single item effects as well as the development of an information asymmetry index, we also provide the first empirical evidence of the extent of information asymmetries. These findings contribute to family business research in general because we have provided empirical evidence for the existence of information asymmetries in intrafamily business succession, which can be seen as antecedents of agency costs (Zellweger & Kammerlander, 2015). The evidence of information asymmetries also supports the theoretical and empirical need for the existence or implementation of advisors or governance structures based on the type of information asymmetries that family firms must address (Dehlen et al., 2014; Michel & Kammerlander, 2015), as information asymmetries are the basis for these interventions to overcome those and generate a successful succession.

We also contribute to the succession research field because we integrate an agency perspective based on information asymmetries. Specifically, our findings provide further suggestions regarding crucial information that must be exchanged when business succession occurs, either formally or informally. The support of hypothesis 1 by our descriptive approach and the OLS regression model 1 shows that during the process, information asymmetries exist in general, and the phase of the succession influences the extent of such asymmetries. Moreover, we have shown that at the beginning of the succession process, information asymmetries are more widely spread than in later stages. Therefore, with our study, we can show (H2) that information asymmetries decrease over time, potentially because the roles of the incumbent and successor change over time (Cater & Justis, 2009). Thus, it could be of strategic interest for family firms to undertake strategic planning, nurturing programs for potential candidates and a step-by-step handover of the family firm because these actions could help reduce information asymmetries (Handler, 1994; Lansberg, 1988). The successive transfer of ownership is connected with a successive increase in the power of the successors, enabling them to obtain additional information about the financial situation of the family firm and critical documents and contracts. Thus, the change in roles over time can also result in changed access to information (Cater & Justis, 2009). In contrast, the predecessors have time to verify the commitment level of potential successors and assess their

skills in running and leading a business (Basco & Calabrò, 2017; Chrisman et al., 1998; Schleppehorst & Moog, 2014).

Moreover, with this research, we examined successor selection in family businesses and the problems that can occur if the selection process is not well planned, documented or transparent (Chrisman et al., 1998). For example, we were able to show that information asymmetries in the categories of the selection criteria are highly relevant, such as in the context of teamwork issues between the predecessor and successor, the duration of the succession process and the commitment (Chrisman et al., 1998; McMullen & Warnick, 2015). Moreover, when there is a greater number of overall potential successors involved in the process, increased information asymmetries occur (H3). Our results strongly support the need for communication and planning regarding successor selection and a clear decision on successors, agreeing with the recommendations in the previous literature (Basco & Calabrò, 2017; Schleppehorst & Moog, 2014).

The findings of our research agree with the results of other studies supporting the role of clear governance structures and planning activities in the succession process (Botero et al., 2015; Dekker et al., 2015; Stewart & Hitt, 2012). For example, previous studies support optimizing the succession process by using strategic advisors (Michel & Kammerlander, 2015; Strike, Michel, & Kammerlander, 2018) or governance structures (Suess, 2014; Zellweger & Kammerlander, 2015). The results of H5 suggest that instruments from the personnel economics literature such as monitoring (Lazear, 1998; Schulze et al., 2003), governance structures and general planning (using various tools, partly contemporaneous, to structure the succession and information-exchange process) can decrease information asymmetries in the family-internal succession process. These findings are in accordance with the literature on the professionalization of family firms (Stewart & Hitt, 2012; Wiklund et al., 2013).

Finally, our research highlights the importance of family members having shared values and thus a form of education and family bonding (Jaskiewicz et al., 2015, 2016; Kammerlander et al., 2015). Individual family members and involved actors have their own expectations and goals in the ongoing and complex negotiation

process of the family's internal business succession (Astrachan Binz et al., 2017; Kotlar & De Massis, 2013). Our research suggests that it is easier to align these goals over time if all actors in the process have the same values and norms because of lower information asymmetries (Frank et al., 2010). Based on this research, we argue that common values are beneficial for information exchange and decrease information asymmetries. Therefore, we have strengthened the literature on goals in family business and the role of goal alignment as an antecedent of information asymmetries during business successions (Astrachan Binz et al., 2017; Jaskiewicz & Klein, 2007; Kotlar & De Massis, 2013). To align goals over time, it is easier if all the actors in the process have the same values and norms (Frank et al., 2010). This behavior of problem-solving and handling goal alignment is closely connected with satisfaction. Le Breton-Miller et al. (2004) measured the success of successions through the stakeholders' satisfaction with the business succession process. A lack of information can result in dissatisfaction because people who feel uninformed are unable to make clear decisions, which is crucial for the long-term survival of a family business.

## **5.6 Implications for Practice**

This study also has important practical implications. First, it is a key finding that information asymmetries in family firms are caused by the heterogeneity of interests among family members (Zellweger & Kammerlander, 2015). Family business members may suggest that there are no blind spots between relatives with close connections. Our results show that this is not the case. An awareness of this phenomenon is important for continuous communication that helps decrease information asymmetries throughout the various stages of the succession process. Second, our study clearly shows that family members of different generations have different goals and intentions (Aparicio et al., 2017; Kotlar & De Massis, 2013), which may produce information asymmetries and agency problems. The existence of shared values between the predecessors and successors can assist in decreasing information asymmetries. This finding highlights the importance of the upbringing of potential successors in multigenerational family businesses (Jaskiewicz et al., 2015) and the sharing of values regarding the family business (Kammerlander et

al., 2015) to help overcome self-interest and information asymmetries. This sharing could ultimately connect different goals in the succession process and be crucial to the success of business successions and negotiation agreements (Kotlar & De Massis, 2013). Third, our study reveals that the more uninformed the potential successors in the pool for succession are, the more information asymmetries may exist. This finding supports the need for clear and fair communication to develop a plan for a succession that is supported by all family members. This finding leads to another important aspect of this research: information asymmetries do exist regarding the successor selection criteria. Thus, following a clear plan for succession with governance structures and milestones can significantly diminish information asymmetries (Schlepphorst & Moog, 2014). It is therefore important for consultancies or politicians supporting family businesses to make clear statements acknowledging that information asymmetries do exist in family businesses. It is important that the relevant actors know about these asymmetries and address the challenges they present to develop their family businesses sustainably.

## **5.7 Limitations and Future Research**

Despite the contributions of our study set forth above, certain limitations should be kept in mind when considering our results. The first limitation is our reliance on a single informant per firm and the subjective nature of the information. However, this tradeoff must be weighed against the abundance of insight and the complicated access to information concerning information asymmetries in family firms. Future research should attempt to collect dyadic information for a deeper understanding of all involved actors (Gooty & Yammarino, 2011).

Second, our data offer little information about the concrete outcomes of information asymmetries. Thus, we can observe data on the existence of information asymmetries, but we cannot directly test whether and how these information asymmetries cause agency problems such as adverse selection or moral hazards. Some research on agency problems such as agency costs or adverse selection assumes that information asymmetries exist (Michel & Kammerlander, 2015;



Zellweger & Kammerlander, 2015). Nevertheless, given the results of our investigation, further research should focus on the outcomes of information asymmetries. However, we report results on how family firms can either overcome existing information asymmetries or handle interactions of heterogeneous interests to decrease information asymmetries.

Furthermore, as often occurs in family business research, our study is influenced by a survival bias. We have data from only successful German family firms, which inherently means that these family firms have found solutions to information asymmetries. Thus, with our data, we cannot answer the question as to whether information asymmetries lead to failures in family-internal successions or whether decreasing asymmetries can lead to more successful transfers. Although we have only preliminary evidence in this study, our findings may still be helpful for professionalizing the planning and execution of succession processes.

Finally, the state of information of the predecessors and successors changes over time. We used cross-sectional data for our study, which limits the analysis of the change process over time. Nevertheless, we have delivered initial insights into this topic, and future research should include a longitudinal study to offer further insights into the development of information asymmetries over time. However, even with these limitations in mind, we are confident that our results contribute to the research on family-internal business succession processes, information asymmetries, and strategy.

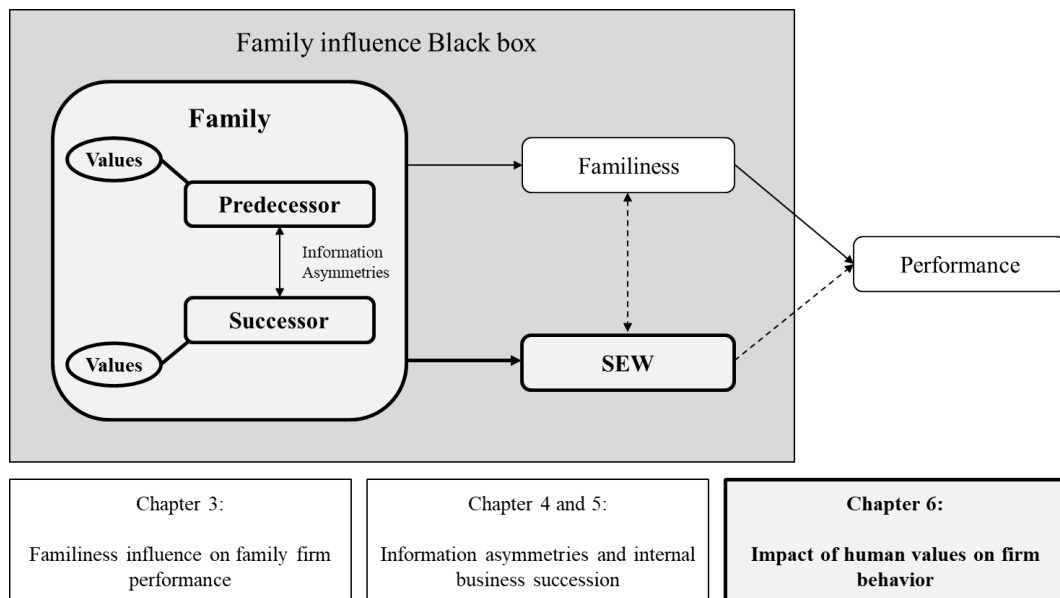
## **5.8 Conclusion**

Our study shows that information is asymmetric both in family businesses and in intrafamily successions. This study delivers new evidence for why a family's communication and organization is important, specifically as a function of information exchange. We present new theoretical and empirical insights into why information asymmetries can be traced back to family structures and specific phases in the process and how these issues can be overcome using planning and governance aspects. This is a key finding that supports the need for further research to affirm the agency behavior of family members in family businesses. However, family

firms also implement various processes and use different tools to decrease information asymmetries throughout the succession process. To advance family business succession research, we encourage scholars to investigate how family firms address agency behavior during the succession situation and its outcomes.

Since we found out that values can play a major role in avoiding information asymmetries, the next chapter examines the question of how values influence the family business generally. In particular, the study investigates how the values of the individual family member affect the strategic decision-making behavior of the firm.

**Figure 17: Interaction of the key elements: Impact of human Values on SEW**



Source: Own illustration.

## **6 Back to the Roots: Applying the Concept of Individual Human Values to Understand Family Firm Behavior<sup>5</sup>**

### **ABSTRACT**

Values have long been utilized to explain the unique behavior of family firms. However, surprisingly few studies have attempted to measure values of family firms directly and connect them to decision-making and family dynamics. With this quantitative study, we go beyond existing literature and connect the construct of Schwartz's individual, basic human values to the multidimensional framework of socio-emotional wealth. Results based upon our sample of 1003 German family firms show a significant positive relationship between values and the measured FIBER dimensions. Our findings result in a model that explains how values drive decisions within the framework of socio-emotional wealth.

Keywords: Family Firm, Socio-Emotional Wealth, Values, Decision-Making

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## 6.1 Introduction

Since long, values have been deemed to be an important factor in explaining the particular behavior and decision-making of family firms (Beckhard & Gibb Dyer, 1983). Distelberg and Sorensen (2009) proposed, for example, that values influence the resources, choices and goals of the firms and the family. Multiple authors also mentioned that values derived from family ownership can be a major influencing factor on the decision-making process (Chua et al., 2015; Fletcher et al., 2012; Gómez-Mejía et al., 2007; Pieper, 2010; Schulze & Kellermanns, 2015; Zellweger & Dehlen, 2012) build the basis upon which a family firm is founded (J. H. Davis, Allen, & Hayes, 2010) and influence the general behavior of family firms (Yuan & Wu, 2018). While definitions to some extent vary, many sociologists and psychologists agree, that values substantially influence the affective and behavioral responses of individuals, fostering behavior which is in accordance to the individual values (Kluckhohn, 1951; Rokeach, 1973; R. M. Williams, 1974).

However, empirical research about how values manifest themselves, what values are predominant within a family firm and how they actually influence the decision-making process is scarce (Duh et al., 2010; Koiranen, 2002). Oftentimes, values are used as an explanation for a phenomenon, such as the special corporate culture (Fletcher et al., 2012), longevity (Lumpkin & Brigham, 2011), corporate social responsibility (Marques et al., 2014) or goal setting (Kotlar & De Massis, 2013), without thoroughly explaining or investigating values as antecedents, even though understanding values has become crucial for family firms, since values are often identified as mean or resource to overcome crises and secure continuity (Fletcher et al., 2012). Multiple questions about values still remain unanswered and have been addressed to be of importance within the field of family firm research – Primarily, the mechanisms through which values of the owner-family affect firms (Bertrand & Schoar, 2006) as well as the role of individual values within the firm and family values alike (Duh et al., 2010; Sharma, 2004).

With this paper, we aim to go beyond existing literature in applying the theory of basic human values, a model developed by social-psychologist Shalom H. Schwartz

(1992), to measure the predominant values within a family firm and establish a connection to the unique decision-making characteristics of family firms. On this account, we use the validated and established Portrait Value Questionnaire (PVQ), developed by Schwartz for the European Social Survey (ESS) (Schmidt, Bamberg, Davidov, Herrmann, & Schwartz, 2007; Schwartz & Rubel, 2005). In choosing this value survey, we apply one of the most inclusive scales for capturing meaningful values across different societies (Schmidt et al., 2007; Schwartz & Rubel, 2005). We find support for this approach, reflecting a first conceptual study of Yuan and Wu (2018), who propose a family value perspective to plausibly explain different strategic behavior and heterogeneity within the field of family firm research. They therefore used Schwartz's bipolar, higher order values (self-enhancement, openness-to-change, self-transcendence and conservation, figure 18) and connected those with agency- and stewardship theory. In addition they presented a dynamic model, which we will adopt in this study to empirically show how these values influence strategic behavior and family business dynamics.

In order to understand how values shape the decision-making process and strategic behavior in family firms, it is essential to acknowledge that this exact process is unique in family firms. Due to the concentration of decision-making power emitted by one or a few members of the owning family, these organizational leaders exert a direct influence over values and culture which subsequently influences performance (Anderson & Reeb, 2003; De Massis, Kotlar, Campopiano, & Cassia, 2015; García-Álvarez et al., 2002; Kelly, Athanassiou, & Crittenden, 2000; McConaughy, 2000; Schein, 1983). Thus, a concentration of strategy and other decision-making processes (Duh et al., 2010), paternalistic cultures (Dyer, 1988) and forced values on the family firms may result from that. In addition, behavior and decision-making of family firms are strongly influenced by non-financial goals (De Massis et al., 2018; Gómez-Mejía et al., 2007). Agency theory (Cruz, Gómez-Mejía, & Becerra, 2010; Eisenhardt, 1989a) as well as stewardship theory (J. H. Davis et al., 2010; Donaldson & Davis, 1991; Miller & Breton-Miller, 2006) were primarily used to explain these differences until, in 2007, the model of socio-emotional wealth (SEW) by Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson and Moyano-Fuentes was developed. This framework, grounded in the behavioral

agency model, has widely been accepted by family business research to explain some of the observable differences soundly. At the same time, SEW has been one of the most discussed and criticized models in recent years (Miller & Le Breton-Miller, 2014; Schulze & Kellermanns, 2015). Often, research is based upon assumptions about SEW (Schulze & Kellermanns, 2015), findings contradict each other, and outcomes of SEW itself are very diverse (Miller & Le Breton-Miller, 2014). Therefore, many questions remain unanswered, necessary to understand the complex framework of SEW. How does it function, what is cause and effect and within whom does SEW actually reside (Chua et al., 2015; Miller & Le Breton-Miller, 2014; Schulze & Kellermanns, 2015)? Miller and Le Breton-Miller (2014) stated, „*it will be useful for scholars of SEW to be sharper in their characterizations of its nature, sources, and outcomes, and to probe more directly the motives of the family members who play active roles in family businesses.*” (Miller & Le Breton-Miller, 2014, p. 718). To follow this call and contribute to the ongoing discussion, we applied the model of basic human values (Schwartz, 1992) and connected this socio-psychological measurement with the model of SEW, measuring the influence of values on the FIBER dimensions of SEW (Berrone et al., 2012). While indeed, SEW is often connected to underlying values, motivations or psychological models (Jiang, Kellermanns, Munyon, & Morris, 2018), no study has yet measured and connected specific values to the multidimensional FIBER construct of SEW. Jiang et al. (2018) propose, that many of the challenges the concept of SEW faces can be addressed by using a social-psychology lens.

*We argue that the locus, as well as the driver behind SEW and thus decision-making, strategic behavior and family business dynamics in family firms, are the values of the individual owner-manager and the corresponding family. Thus, SEW builds the frame in which decisions are made while values are the roots from which decisions sprout.*

To entangle the connection of values and SEW, a quantitative study has been performed based upon our sample of 1003 family firms in Germany. We tested the hypotheses, that values are the antecedents for SEW behavior and thus drive decision-making. We, therefore, looked at five ordinary least square models using

Schwartz's higher order values (1992) as independent and the FIBER dimensions of Berrone et al. (2012) as independent variables. Our findings show strong support of the presumed connection between values and SEW. The fact that bipolar values (Schwartz, 1994) influence different dimensions of the FIBER dimensions shows, that different value constructs are used by family firms, depending on the framework of the decision.

Based on our findings, this paper contributes manifold to the family-business research stream. First, we test the frequently mentioned connection between values and SEW and therefore how values influence decision-making processes. Second, it is the first empirical study, in the context of family firms, which explores values in a structured quantitative manner, using a validated measurement grounded in socio-psychological studies. Thus, we are able to identify the predominant values existing in family firms based on the theory of basic human values (Schwartz, 1992). Last, as we used the FIBER scale of Berrone et al. (2012) with a solid dataset of German family firms, we are one of the first who present empirical data of SEW and thus contribute to the body of SEW knowledge. In the following chapters, we present an introduction to values, SEW in family firms and their interrelated connection. Derived from existing literature, hypotheses are constructed and formulated. Next, the methodology is presented, followed by our results, discussion and conclusion.

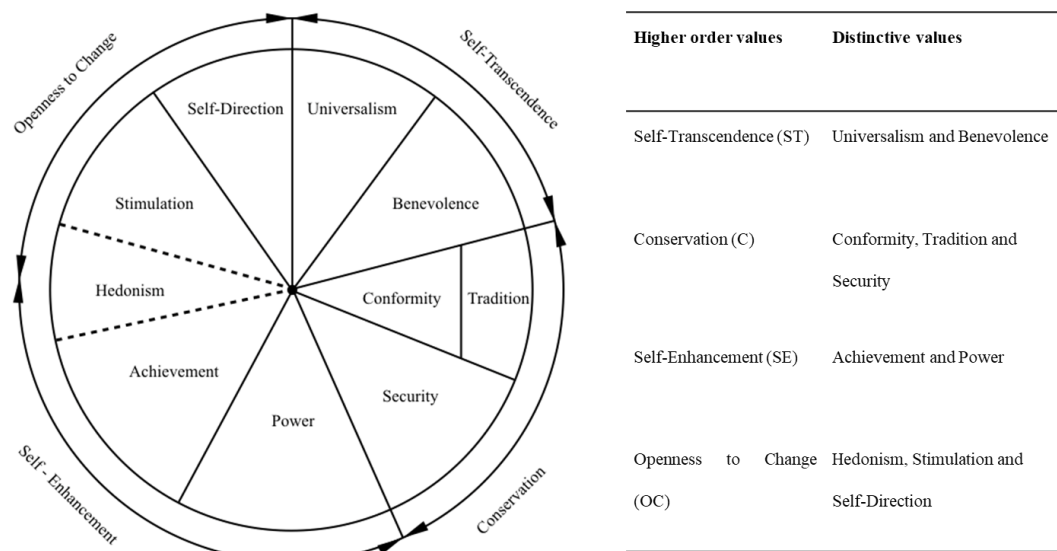
## **6.2 Theoretical Framework and Hypotheses**

### **6.2.1 The meaning of Values in Family Firms**

Values aid in understanding psychological (Ryff, 1989), subjective well-being and individual behavior (Diener, 1984). Kluckhohn (1951) describes values as an implicit or explicit conception of the desirable, influencing the selection process of the individual from available modes, means and ends of action. This explains that non-conform decisions and behavior will most likely result in guilt, shame or self-depreciation. Thus, values of a person, act as "*personal standards of conduct*" (Narasimhan, Bhaskar, & Prakhya, 2010, p. 370) throughout decision-making. Schwartz (1994) stated that there is a common understanding that values feature

five distinguishable features, which set them apart from needs and attitudes. “A value is a (1) belief (2) pertaining to desirable end states or modes of conduct, that (3) transcends specific situations, (4) guides selection or evaluation of behavior, people, and events, and (5) is ordered by importance relative to other values to form a system of value priorities” (Schwartz, 1994, p. 20). While this common concept enables to distinguish, what values are or what they are not, they do not offer a proper categorization. Therefore, Schwartz (1992) developed a conceptual framework to measure and identify different values, based on the work of Rokeach (1973). Schwartz classified these values and established relationships among the different existing value types. He identified ten distinctive values that are additionally clustered in four higher order value types, as presented in figure 18. These four higher order value types oppose each other to a certain extent and form two bipolar value dimensions. For example, it is justifiable that values emphasizing change, own thought, and action (openness to change - OC) oppose values emphasizing on traditional practices, self-restriction, and security (conservation - C). Similar to that, values focusing on personal success, power and authority (self-enhancement - SE) oppose values focusing on the general benefit and welfare of others (self-transcendence - ST). Please see figure 18 for a detailed overview.

**Figure 18: Theoretical model of relations among motivational types of values higher order value types, and bipolar value dimensions**



Source: Own illustration following Schwartz (1994).

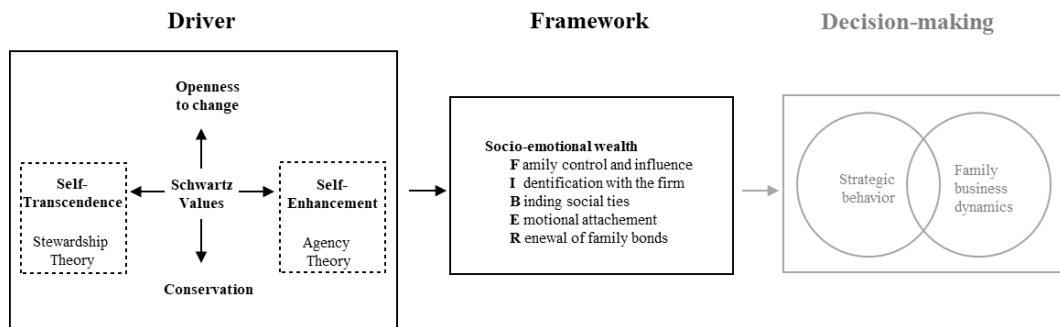


Regarding the bipolar relationship of these values a recent contribution has been made by Yuan and Wu (2018) commenting on a study published in *Entrepreneurship Theory and Practice*, wherein Hillier, Martínéz, Patel, Pindado and Requejo (2018) proposed that agency conflicts between shareholders and creditors are lower in family firms than in non-family firms. Yuan and Wu (2018) placed this study into a wider context and proposed to include values when studying family firms, emphasizing on values as the “*key determinant of family heterogeneity and family firm behavior*” (Yuan & Wu, 2018, p. 284). Using Schwartz’ bipolar value model, they propose that family firms, according to their higher order values, make different use of debt-financing and have different accessibility to it. For example, family firms emphasizing on self-enhancement values might end up in agency conflicts, as mutual trust between the lender and the family firm is jeopardized in the process. Yuan and Wu (2018) further elaborate, that firms focusing on self-transcendence are rather expected to behave according to stewardship theory, embracing and protecting the welfare of people around them, which might ultimately lead to a better relationship between the family firm and lenders, as trust increases over time. They conclude that a value perspective may explain strategic behavior and family business dynamics and consequently developed a conceptual model of family values (Yuan & Wu, 2018). In the model, they show the behaviors of family firms as a linear connection between values, which influence strategic behavior and subsequently family firm dynamics, which in return influence the values of the family. Their approach is also supported by Chrisman, Chua, Le Breton-Miller, Miller and Steier (2018) who further extend Yuan and Wu’s (2018) model not only to debt financing but investments in general.

### **6.2.2 Illustrating the Connection of Values and SEW**

We used the concept of Yuan and Wu (2018) and introduce our adaptation of their model: “Values as driver of SEW and decision-making in family firms” in extending the model by adding the framework of socio-emotional wealth (Gómez-Mejía et al., 2007) to it. As displayed in figure 19, we argue that the main driver behind the decisions made within a family firm is the need to satisfy one’s own value construct (Kluckhohn, 1951).

**Figure 19: Values as driver of SEW and decision-making in family firms**



Source: Own illustration following Yuan and Wu (2018).

Depending on the framework, herein represented by socio-emotional wealth, different values are used for decision-making, leading to strategic behavior and the intertwined family business dynamics. In figure 19, decision-making is greyed out, as this study focuses on testing the empirical connection of values and SEW, which is so far just assumed but not proven. SEW is a homegrown model, which was developed, based upon the behavioral agency theory to explain the behavior of family firms, often showing a unique non-financial goal orientation. The loss or gain of SEW form the general guidelines that family firms use to make decisions and policies (Berrone et al., 2012). As classical models like agency and stewardship theory cannot solely explain the distinctive behavior of family firms (Schulze & Kellermanns, 2015), SEW quickly became a widely discussed topic within the family business research field and is nowadays the predominant framework used (Vazquez & Rocha, 2018) with over 700 peer-reviewed academic papers (Jiang et al., 2018). We furthermore argue that strategic behavior and family business dynamics cannot be separated and thus presented them on the same hierarchical level (figure 19) as SEW influences strategic behavior and family business dynamics alike.

However, SEW while soundly explaining certain behaviors of family firms, also received significant criticism over the last few years. Schulze and Kellermanns (2015), for example, argue, that a positive theory, explaining the core set of beliefs and contributions of the family to the healthiness of the firm is missing. In addition, it is argued that a lot of research in this field is only based on assumptions (Schulze & Kellermanns, 2015) and findings contradict each other (Miller & Le Breton-

Miller, 2014). A substantial amount of research projects focused on the influence of SEW on organizational governance, stakeholder relationships, performance, innovation, corporate social responsibility (CSR) and other management practices (Cruz, Larraza-Kintana, Garcés-Galdeano, & Berrone, 2014; Deephouse & Jaskiewicz, 2013; Filser, De Massis, Gast, Kraus, & Niemand, 2018; M. B. Rousseau, Kellermanns, Zellweger, & Beck, 2018; Vardaman & Gondo, 2014) displayed in our model as the last step. However, so far, there is no research, we are aware of, that focuses specifically on the driver, the locus behind SEW. Indeed, Jiang et al. (2018) summarize in their paper, that SEW research neglects “*family member’s actual thoughts, feelings, motivations and behaviors of that are believed to be part of the unique SEW-related phenomena*” (Jiang et al., 2018, p. 128). Due to that, they introduce a socio-psychology lens, which, in their opinion, can lead to a better understanding of the human nature behind the SEW phenomena. They suggest three different guidelines on how this integration is possible. Their approach, that thoughts, feelings, and behavior connected to SEW vary according to the unit of analysis, and the situations is intriguing (Jiang et al., 2018). To advance the research about family firms behavior and decision-making, to increase our knowledge about the driver of SEW and to prevent possible reification of SEW, we connect the individual, basic human values by Schwartz, with SEW focusing on the first part of our model, trying to prove, that values are the real driver of decisions, while SEW is rather the framework, a decision resides in.

We are aware of family firms heterogeneity and the different systems present within a family business system (De Massis et al., 2019; Jaskiewicz & Dyer, 2017; Tagiuri & Davis, 1992) and argue that using the values of the family firm owner is a key element in order to measure the whole family system’s values. Research has widely acknowledged, that organizational leaders exert significant influence on values, culture and performance of firms (Porras & Collins, 1994; Schein, 1983) and especially family firms (Anderson & Reeb, 2003; García-Álvarez et al., 2002; Kelly et al., 2000; McConaughy, 2000). Thus, family firm owners, actively involved in the management of the company deem to be the preferable choice in retrieving data on values representing the family business system, as they are not only part of the

ownership, family and business systems, but exert an substantial amount of control over the values within the business system (Duh et al., 2010).

To further comprehend SEW, Berrone et al. (2012) developed a multidimensional approach to measure and grasp the different dimensions of SEW. These dimensions are labeled as FIBER, standing for family control and influence (F), identification of family members with the firm (I), binding social ties (B), emotional attachment of family members (E), and renewal of family bonds (R) to the firm through dynastic succession (Berrone et al., 2012). Subsequently, we use the FIBER-scale and connect it to the higher order values of Schwartz (1992) and in the following section will focus on the connections that can be established by using existing concepts we found in the literature.

### **6.2.3 Derivation and Classification of Hypotheses.**

**Family Control and Influence (F)** stands for the will of family members to preserve control and influence over the family firm (Berrone et al., 2012). One of the main attributes of family firms is the fact, that families control strategic decisions directly or indirectly (Chua et al., 1999; Schulze et al., 2003). Remaining in charge is essential for owners and family members, even neglecting financial considerations in conclusion (Gómez-Mejía et al., 2007). We argue that there is a clear connection to two higher order values of Schwartz (1992), posed in the need to stay in charge. Predominantly, values such as power, authority, and success may lead to the need for maintaining the position as a leader. This can also be perceived in family firms often suffering from paternalistic and authoritarian governance structures (Dyer, 1988). In addition, we reckon that conservation values influence this dimension as well. Conservation, consisting of the distinctive values security, tradition and conformity support the notion, of staying in charge of the family firm. Furthermore, we propose, that openness to change has a positive effect on F. As this higher order value includes the distinctive value self-direction, consisting of, e.g. independence, freedom and choosing one's own goals (Schwartz, 1992), maintaining the control over the business does have a clear connection to this value dimension as staying in charge and deciding free is one of the main non-economic

goals described by the F dimension. Therefore, we propose the following hypothesis:

*Hypothesis 1a (H1a):* There is a positive relationship between self-enhancement and F.

*Hypothesis 1b (H1b):* There is a positive relationship between conservation and F.

*Hypothesis 1c (H1c):* There is a positive relationship between openness to change and F.

**Identification (I)** is understood as a mix of family and business, creating the unique family firm identity (Berrone, Cruz, Gómez-Mejía, & Larraza-Kintana, 2010; Dyer & Whetten, 2006; Zellweger et al., 2010). Often, family firms are directly associated with the family as it carries the name on the door (Berrone et al., 2012), increasing the internal and external exposure of the family (Felden, Fischer, Graffius, & Marwede, 2016). Due to this fact, family firms have been observed to have a higher activity level in CSR (Berrone et al., 2010) and maintain a high image of the families reputation (Sharma & Manikutty, 2005; Westhead, Cowling, & Howorth, 2001). Further to that, identification can be associated with altruism (Marques et al., 2014), as managers identifying with the firm are more likely to engage into unrewarded citizenship behavior (J. H. Davis et al., 1997). We, therefore, hypothesize that the values, underlying this dimension are predominantly part of self-enhancement. Achievement, as part of the higher order value self-enhancement, is defined as accomplishing personal success through the demonstration of competence according to social standards. As such, the value achievement can directly be linked to the need for maintaining the family firm's reputation and gaining social approval. Furthermore, we argue, that the higher order value conservation influences identification since the family firms' heritage is often mentioned in the context of family business research (Micelotta & Raynard, 2011; Mitchell, Agle, Chrisman, & Spence, 2011; Zellweger, Kellermanns, Eddleston, et al., 2012) as a way to brand the company and strengthen the identity. Zellweger et al. (2012) mention that an organizational identity builds upon a firm's heritage and

sets the course for the future at the same time. Due to that, the following hypotheses are presented:

*Hypothesis 2a (H2a):* There is a positive relationship between self-enhancement and I.

*Hypothesis 2b (H2b):* There is a positive relationship between conservation and I.

**Binding social ties (B)** elaborates the family firm's social relationships. Social bonds, even though they are the strongest throughout the family, members, are not exclusively part of the family. Research shows that reciprocal bonds will often be extended to outsiders as well (Miller, Lee, Chang, & Le Breton-Miller, 2009). The feeling to secure the well-being of the family will most likely extend to employees of the family firm, hence strengthening the sense of identity of non-family employees (Miller & Le Breton-Miller, 2005). This inclusion even goes so far as to include long term suppliers, customers (Uhlener, 2006) and communities (Berrone et al., 2010). Therefore, we see the higher order value self-transcendence as a driver of this SEW dimension. Self-transcendence includes the values benevolence and universalism, dealing with the concern about the welfare of others. Fundamentally, benevolence focuses on the welfare of people with whom one is in frequent personal contact. Schwartz (2012) stated that relations within the family are most critical but can include other primary groups. The higher order value universalism is described by the distinguished values social-justice, equality, harmony, and protection of the environment. Lastly, for binding social ties, we hypothesize that the higher order value conservation will have a positive influence. Previous research emphasized on distinctive characteristics of family firms as caring stewards (J. H. Davis et al., 1997; Miller & Le Breton-Miller, 2005). Arguments have been made that, e.g., the culture of family firms result in employees having higher commitment, involvement and loyalty to the family firm (Vallejo, 2008) and that family firms show a higher employee participation (Bammens, Notelaers, & Van Gils, 2015; Covin, 1994) and job security (Block, 2010; Sraer & Thesmar, 2007). This may lead to higher trust and organizational harmony, which is next to benevolence, closely connected to values such as security and conformity. On this regard, we propose the following hypothesis:

*Hypothesis 3a (H3a):* There is a positive relationship between self-transcendence and B.

*Hypothesis 3b (H3b):* There is a positive relationship between conservation and B.

**Emotional attachment of family members (E)** describes the emotional bond between the family and the family firm. Oftentimes a long history with multiple family generations resides within the firm (Felden et al., 2016; Gersick et al., 1997). In addition, the shared knowledge of events in the firm's genesis (Kammerlander et al., 2015), where family relationships are dominant may exist (Berrone et al., 2012). This emotional involvement can be seen as one of the distinguishable characters of family firms (Eddleston & Kellermanns, 2007; Tagiuri & Davis, 1996) inherently influencing the decision-making (Baron, 2008). Furthermore, Berrone et al. (2012) argue that the dimension, through psychological appropriation, is connected to maintaining a positive self-concept, by stating, that emotional attachment, fosters family legacy, helps to understand trust (Steier, 2001), altruism (Eddleston & Kellermanns, 2007) and benevolence (Cruz et al., 2010). These mentioned values can be seen as an influencing force within the context of emotional attachment. We, therefore, propose that the higher order values self-transcendence and conservation are the main drivers for emotional attachment of family members to the family firm which is also supported by the concept of emotional ownership (Björnberg & Nicholson, 2012).

*Hypothesis 4a (H4a):* There is a positive relationship between self-transcendence and E.

*Hypothesis 4b (H4b):* There is a positive relationship between conservation and E.

**Renewal of family bonds (R)** by succession is the concluding dimension, according to Berrone et al. (2012). It conveys the predominant need of owners to hand over their family firm to the next generation. This has been mentioned to be one of the most essential parts of SEW (Zellweger & Astrachan, 2008; Zellweger, Kellermanns, Chrisman, et al., 2012). A firm symbolizes the family's heritage, its legacy and tradition (Tagiuri & Davis, 1992). Thus, managing and preparing the

firm for continuity, so future generations can benefit from it, is one of the main goals (Kets de Vries, 1993; Kotlar & De Massis, 2013; R. I. Williams, Pieper, Kellermanns, & Astrachan, 2019; Zellweger, Kellermanns, Chrisman, et al., 2012). In light of this, an argument can be made that the higher order value conservation influences decision-making about the renewal of family bonds. However, the intention to hand over a healthy business has also certain self-transcendence to it. Prior research highlights that predecessors often lack the ability to really “let go” of their firm as it presents a major part of their life (Cadieux, 2007). While they usually intend, that the firm stays within the family, they are oftentimes somewhat reluctant to step back and let the younger generations take over (Lansberg, 1988). Even though they rather prefer an internal succession over an external succession, so that the power and control remain in the hands of the family (Royer, Simons, Boyd, & Rafferty, 2008). Thus we propose that the value self-enhancement has a negative effect on this dimension while self-transcendence has a positive one.

*Hypothesis 5a (H5a):* There is a positive relationship between self-transcendence and R.

*Hypothesis 5b (H5b):* There is a positive relationship between conservation and R.

*Hypothesis 5c (H5c):* There is a negative relationship between self-enhancement and R.

## **6.3 Method**

### **6.3.1 Data Set**

We collected the data to test our hypotheses by means of an online survey, spanning from October to November 2018. Initially, we contacted 30.000 companies in Germany via e-mail. The addresses for this invitation were randomly chosen from the publicly available database Amadeus (Buerea van Dijk, 2019). We restricted the drawing as followed: First, the companies had to have existed for at least ten years to be seen as a family firm and therefore show longevity (Zellweger, Nason, et al., 2012) and a dynastic orientation (Bertrand & Schoar, 2006). Second, legal forms that do not represent family businesses, as well as sole trader firms, were



excluded. Third, all relevant missings and outliers, which were identified as input errors, have been excluded. Concluding the drawing, a filter specifying family firms according to the definition of Chua, Chrisman and Sharma (1999) was applied. Thus, we only included family firms where at least 50 percent of the family business is held by the family, at least one family member is actively involved in the management and observable family characteristics were present, which was validated by self-assessment of the participants (Chua et al., 1999). Furthermore, in order to ensure that only the targeted person answers the questionnaire, we asked for the respondent's position and whether they are part of the owning family. Solely respondents who are active in management and part of the owning family were included in the final sample. Meeting all these restrictions, the final sample consists of 1003 complete questionnaires.

Regarding testing for a non-response bias, we analyzed whether the responses of the first set differ from those who answered the survey last. We, therefore, sorted the dataset by return date and divided it into three groups. Concerning our explanatory variables, we found no statistically significant differences between these three groups (Armstrong & Overton, 1977; Chrisman et al., 2004; Dehlen et al., 2014).

To further ensure the representativeness of our sample, we compared the descriptive data from our dataset with comparable studies about family businesses in Germany. The results show that our dataset is similar to other representative studies. The average firm age in our dataset is 56.8 years and is in line with datasets from Dehlen et al. (2014) with 62 years and Hauck et al. (2016) with 56.4 years. Our average age of the owner, 51, is comparable to the average age of 45 (Dehlen et al., 2014), 46 (Sieger et al., 2013) and 51 years (Zellweger, Kellermanns, Chrisman, et al., 2012). Furthermore, the respondent's gender distribution of 73 percent being males is equal to the study of Sieger et al. (2013) with 71.4 percent. Also, the generation, 2.2, is in accordance with other datasets (Hauck et al., 2016). Last, the distribution of industries in our final sample matches the distribution of companies drawn from the database, which further strengthens the representativeness of our sample.

Regarding the potential of a common method bias, we designed the questionnaire and thereby the order of the questions in a way that the respondent's answers are not influenced by the researchers underlying expectations (Podsakoff et al., 2003). Additionally, we assured the anonymity to all respondents to reduce a possible social desirability bias (Podsakoff et al., 2003). Furthermore, we performed a Harman one-factor test (Podsakoff & Organ, 1986) and performed an exploratory factor analysis for the models with all predictor variables from our regression models, leading to a 5-factor solution with Eigenvalues greater than one. Taken together, these factors explained 65.19 percent of the total variance. The first factor explained 17.32 percent of the variance, which already indicates that common method bias is not a concern in our study since no single factor explains the majority of variance.

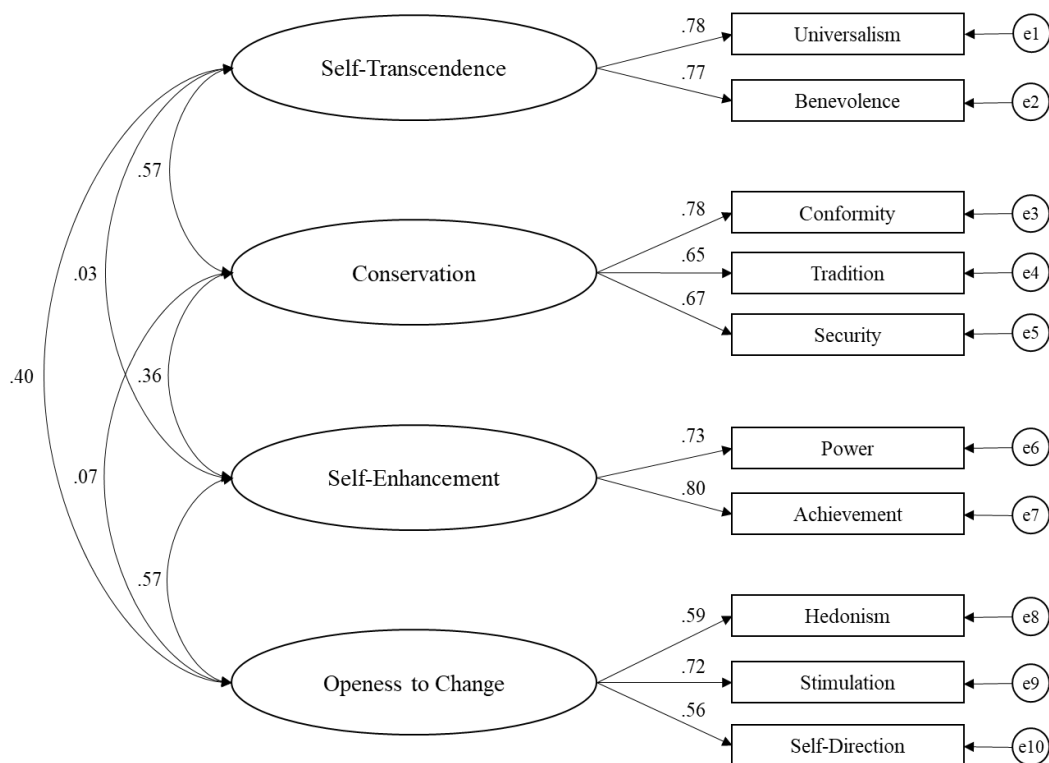
### **6.3.2 Variables**

***Dependent Variables.*** In this study, we use the FIBER dimensions, as proposed by Berrone et al. (2012), to measure SEW as *dependent variables*. As this survey was conducted in Germany, the exact questions of each dimension were translated and used in our survey. To ensure reliability, all authors and a native speaking associate crosschecked this translation. The participants had to indicate their approval of a statement on a 5-point Likert scale ranging from “Strongly disagree = 1” to “Strongly agree = 5”. Ensuring that there is no impact by the order of the questions, we used randomization for each participant. Lastly, for each of the FIBER dimensions, mean values for each case were calculated, which represent the dependent variables for further analyses.

***Independent Variables.*** As previously mentioned, we measured values using Schwartz' Portraits Value Questionnaire due to it being more focused than the original Schwartz value survey, having already been validated and deemed more accessible to participants (Schmidt et al., 2007). More specifically, we used the existing, validated German version of the questionnaire (Schmidt et al., 2007). The Portraits Value Questionnaire consists of 40 questions covering the ten distinctive values found by Schwartz (1992) as displayed in figure 18. Methodologically, characteristics of a person are described to the survey respondent, whereas the

respondent is asked to answer on a 6-point Likert scale, ranging from “Very much like me = 1” to “Not like me at all = 6”. Again, questions were presented in random order. Each subscale was then calculated to a mean value, which represents the ten distinctive values according to Schwartz. Additionally, Schwartz summarized these values into four higher order values (figure 18). The Cronbach’s alpha for the ten distinctive values varies between 0.514 and 0.804, and for the four higher order values between 0.632 and 0.743. All of them are in line with the results of previous studies (Schmidt et al., 2007). Due to the high correlation between these ten distinctive values, we used the values according to the four higher order value groups. In order to proof the construct validity, we further performed a confirmatory factor analysis, figure 20. The analysis shows that the distinctive values can be well assigned to the respective dimensions and measure the same factor in each dimension. Furthermore, as this study is the first to use the PVQ on family firm owners, providing evidence that the construct of Schwartz (1994) works comparably well in this context.

**Figure 20: Confirmatory Factor analysis Schwartz value dimensions**



Fit indices: N=1003, Chi-square = 298.1 (df=29 p<.001), CFI = .905, TLI=.852, RMSEA = .096, PCLOSE .000.

**Control Variables.** In line to ensure that other environmental effects do not affect our results, we included several control variables. We use the number of *employees* as a measure for firm size, which has been noted to have a strong influence on culture (Vallejo, 2008). With applying *generation*, we test for an influence of possible effects through previous generations (Lansberg, 1988). As requested by Berrone et al. (2012), we also control for *industry*. We use the aggregated version of the top-level assignment by the statistical classification of economic activities in the European Union (Eurostat, 2008). We analyzed these ten categories and additionally created dummy variables for the large economic sectors consisting of the *manufacturing industry*, *service* and a miscellaneous sector '*other*'. The analysis incorporates only two of the listed dummy variables since one dummy variable is inherent and set as a reference category. Furthermore, we controlled for the *age* of the respondents, as values might vary with the age of the respondent (Schwartz, 1992) and thus could influence the results. Finally, we included gender as a dummy variable called *female*, as significant differences in value orientation between men and women could be observed in previous studies (Beutel & Marini, 1995; Schwartz, 1992). In table 14, we provide a detailed overview of the variables used for the regression models and explain their operationalization.

**Table 14: Variable Description Table**

Variable	Description	Cronbach's $\alpha$
1. Family control and influence	FIBER subscale consisting of six items regarding how the family business takes care of family control and influence.	0.575
2. Identification of family members with the firm	FIBER subscale consisting of six items regarding how the family business takes care of the identification of family members with the firm.	0.815
3. Binding social ties	FIBER subscale consisting of five items regarding how the family business takes care of the binding of social ties.	0.663
4. Emotional attachment of family members	FIBER subscale consisting of six items regarding how the family business takes care of the emotional attachment of family members.	0.799
5. Renewal of family bonds through dynastic succession	FIBER subscale consisting of four items regarding how the family business takes care of the renewal of family bonds through dynastic succession.	0.788
6. Self-Transcendence	Schwartz value dimension consisting of the values Universalism and Benevolence.	0.743
7. Conservation	Schwartz value dimension consisting of the values Conformity, Tradition, and Security.	0.737
8. Self-Enhancement	Schwartz value dimension consisting of the values Achievement and Power.	0.732
9. Openness to Change	Schwartz value dimension consisting of the values Hedonism, Stimulation, and Self-Direction.	0.632
10. Employees	Number of employees.	
11. Generation	Actual generation of the firm.	
12. Industry – Manufacturing industry	Industry sector dummy equals 1 for manufacturing industry	
12a. Industry – Services	Industry sector dummy equals 1 for service (reference category in OLS regression)	
13. Industry - Other	Industry sector dummy equals 1 for other industry than manufacturing or service	
14. Age	Age of the respondent.	
15. Female	Dummy equals 1 for females.	
16. Universalism	Distinctive Schwartz value, including six questions of the PVQ.	0.804
17. Benevolence	Distinctive Schwartz value, including four questions of the PVQ.	0.719
18. Conformity	Distinctive Schwartz value, including four questions of the PVQ.	0.655
19. Tradition	Distinctive Schwartz value, including four questions of the PVQ.	0.514
20. Security	Distinctive Schwartz value, including five questions of the PVQ.	0.689
21. Power	Distinctive Schwartz value, including three questions of the PVQ.	0.619
22. Achievement	Distinctive Schwartz value, including four questions of the PVQ.	0.801
23. Hedonism	Distinctive Schwartz value, including three questions of the PVQ.	0.789
24. Stimulation	Distinctive Schwartz value, including three questions of the PVQ.	0.719
25. Self-Direction	Distinctive Schwartz value, including four questions of the PVQ.	0.654

### 6.3.3 Data Analysis

In order to determine the influence of values on SEW, multiple ordinary least squares (OLS) regression analyses were performed. Although the questions for the aggregated dependent variables were only available as Likert scales, we used the means calculated for each FIBER dimension as metric variables. In applying this finer graded scale, by the combination of several answers, this enabled us to use it as metric variables. In addition to the OLS regression, we executed an ordered probit regression to validate our findings. Both methods showed the same effect directions and significance levels. We decided to use the OLS regression, as it enables us to interpret the results better, making it possible to compare the standardized estimation coefficients within the same model. We established five models, one model for each dimension of the FIBER Scale. In order to underline the robustness of our OLS regression models, we additionally conducted tests with other control variables for the industry, wherein we used ten industries instead of two industry sectors and obtained the same significance levels, directions and effect sizes. Furthermore, we excluded first generation family firms in another analysis, following the definition of Chua et al. (1999) where family firms should have transgenerational thinking, which would be given in second generation or higher. However, we did not observe any change in our results and the significance levels remained the same.

## 6.4 Results

In table 15, we show the means, standard deviation, minimum and maximum values for the dependent, independent and control variables. In addition, an overview of the individual distinctive values is given. We show that the dataset consists of a broad range of firms, starting with micro-sized firms with two employees up to family firms with 3500 employees. The *generations* represented, range from first to sixth generation and older, and the respondents' *age* is between 22 and 94 years. We also observe, that notably companies from the *manufacturing industry* and the *service sector* are represented in our sample. Regarding the FIBER dimensions, we observe that all values are above average. *Family control and influence* (4.42), as

well as Identification of family members with the firm (4.31), are rated particularly high. The *Renewal of family bonds through dynastic succession* shows the lowest average (3.73). Values for the four higher order value dimensions are also above average. *Self-Transcendence* (4.71) shows the highest value and *Self-Enhancement* the lowest (3.66). By narrowing down the values to the individual distinctive values, we observe that in particular *Self-Direction* (5.12), *Benevolence* (4.78), *Universalism* (4.64) and *Security* (4.62) are high among our respondents. In contrast, *Tradition* (3.31), *Stimulation* (3.38), and *Power* (3.60) show the lowest mean value. In comparison to other studies on human values in Germany, we conclude that we achieve comparable results, but find some deviation by certain characteristics. In a study conducted by Schmidt et al. (2007), they obtained significantly lower mean values for *Conformity* (3.02) *Tradition* (2.16) *Security* (3.57) *Power* (2.29) and *Self-Direction* (4.21), while getting a higher value for *Hedonism* (4.13). We conclude that this can be explained in the general difference of the groups analyzed, on the one hand students and on the other family firm owners. Furthermore, as Schwartz elucidates, a value's average increases with the age of the respondent explaining our general higher results (Schwartz et al., 2001).

**Table 15: Descriptive Statistics**

	<b>Variables</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>SD</b>
1.	Family control and influence	1.00	5.00	4.42	0.59
2.	Identification of family members with the firm	1.00	5.00	4.31	0.70
3.	Binding social ties	1.20	5.00	3.92	0.64
4.	Emotional attachment of family members	1.00	5.00	3.94	0.70
5.	Renewal of family bonds through dynastic succession	1.00	5.00	3.73	0.91
6.	Self-Transcendence	1.00	6.00	4.71	0.69
7.	Conservation	2.00	6.00	3.96	0.71
8.	Self-Enhancement	1.00	6.00	3.66	0.88
9.	Openness to Change	2.00	6.00	4.07	0.76
10.	Employees	2.00	3500.00	66.64	212.07
11.	Generation	1.00	6.00	2.20	1.18
12.	Industry – Manufacturing industry <sup>a</sup>	0.00	1.00	0.47	0.50
12a.	Industry – Services <sup>a</sup>	0.00	1.00	0.49	0.50
13.	Industry - Other <sup>a</sup>	0.00	1.00	0.04	0.21
14.	Age	22.00	94.00	51.34	10.92
15.	Female <sup>a</sup>	0.00	1.00	0.27	0.44
16.	Universalism (ST)	1.67	6.00	4.64	0.81
17.	Benevolence (ST)	1.00	6.00	4.78	0.72
18.	Conformity (C)	1.25	6.00	3.93	0.92
19.	Tradition (C)	1.00	6.00	3.31	0.92
20.	Security (C)	1.80	6.00	4.62	0.76
21.	Power (SE)	1.00	6.00	3.60	0.91
22.	Achievement (SE)	1.00	6.00	3.72	1.06
23.	Hedonism (O)	1.00	6.00	3.71	1.15
24.	Stimulation (O)	1.00	6.00	3.38	1.10
25.	Self-Direction (O)	2.25	6.00	5.12	0.66

SD: standard deviation; N: 1003; <sup>a</sup>: Dummy

Table 16 displays the correlation matrix and shows multiple significant correlations of values and the FIBER dimension. That all FIBER dimension values intercorrelate is to be expected, due to the close theoretical connection (Berrone et al., 2012). Additionally, that the questions forming the FIBER dimensions have been observed to correlate with each other (Hauck et al., 2016) also clarifies our



observed correlations. In our data, we can confirm Schwartz (1994) interpretation, that the value dimensions are bipolar.

Therefore, similar value types like *conservation* and *self-transcendence* (.431), as well as openness to change and self-enhancement (.412), are highly correlated, while *self-enhancement* and *self-transcendence* (.019), as well as openness to change and conservation (.054), are not correlated with each other at all. Although we notice several correlations between our variables, the Durbin-Watson statistics in table 17 show that autocorrelation is not an issue in our models (1.960 – 2.032). The variance inflation factor (VIF) ranges from 1.011 to 1.476 for all variables and models. Thus, multicollinearity can be ruled out.

**Table 16: Correlation Matrix**

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	VIF
1. Family control and influence															
2. Identification of family members with the firm	.375***														
3. Binding social ties	.171***	.358***													
4. Emotional attachment of family members	.345***	.478***	.354***												
5. Renewal of family bonds through dynastic succession	.231***	.432***	.292***	.353***											
6. Self-Transcendence	.112***	.143***	.375***	.318***	.157***										1.476
7. Conservation	.135***	.239***	.256***	.300***	.231***	.431***									1.435
8. Self-Enhancement	.090**	.167***	.030	.105***	.110***	.019	.252***								1.400
9. Openness to Change	.035	.082**	.046	.129***	.039	.279***	.054*	.412***							1.403
10. Employees	-.116***	.008	-.035	-.077**	.076**	-.016	-.008	-.006	.053*						1.011
11. Generation	.048	.085**	.029	-.051	.179***	-.023	.073*	-.041	-.033	.070*					1.092
12. Industry – Manufacturing industry	.051	.004	-.010	-.016	.059*	-.016	.041	-.047	-.048	.021	.180***				1.077
13. Industry - Service	-.080**	-.068*	.019	-.051	-.033	-.003	-.076**	-.012	.016	-.031	-.119***	-.203***			1.059
14. Age	-.013	-.020	.086	-.038	-.014	.052*	.019	-.123***	-.074**	-.008	-.177***	-.077**	.044		1.101
15. Female	.095**	.097**	.052*	.139***	-.016	.108***	-.056*	-.051	-.020	.001	-.027	.000	-.044	-.169***	1.071

Significance levels: \* p<.05, \*\* p<.01, \*\*\* p<.001 (two-tailed); N=1003

**Table 17: OLS Regressions**

Independent variables	SEW Dimensions				
	F Model 1	I Model 2	B Model 3	E Model 4	R Model 5
6. Self-Transcendence	.065	.045	.339***	.194***	.104**
7. Conservation	.082*	.185***	.104**	.217***	.151***
8. Self-Enhancement	.081*	.125***	.035	.021	.094**
9. Openness to Change	-.007	.014	-.059	.056	-.033
10. Employees	-.119***	.004	-.027	-.072*	.069*
11. Generation	.048	.084**	.050	-.060*	.167***
12. Industry – Manufacturing industry	.035	-.018	-.006	-.017	.028
13. Industry - Service	-.060	-.042	.031	-.041	.007
14. Age	.022	.025	.080**	-.036	.017
15. Female	.099**	.114***	.038	.123***	-.007
Observations	1003	1003	1003	1003	1003
R <sup>2</sup>	.057	.093	.164	.166	.097
F	6.027	10.204	19.399	19.677	10.624
Durbin-Watson	2.023	2.032	2.027	1.960	1.990

Significance levels: \* p<.05. \*\* p<.01. \*\*\* p<.001 Standardized estimation coefficients are reported.

The results of the regression models are presented in table 17. All five models are significant and show a certain influence of higher order values on the FIBER dimensions of SEW. Thus we can support our initial concept.

In our first model, we observe, that *conservation* (.082, p<.05) and *self-enhancement* (.081, p<.05) show significant positive effects on the SEW dimension *family control and influence*. Our assumed connection between the higher order value *openness to change* and *family control and influence*, however, was not supported. Regarding the control variables, the number of *employees* (-.119, p<.001) has a significant negative effect, while gender if the respondents were female, (.082, p<.01) shows a positive effect on dimension *family control and influence*. Therefore, hypothesis H1a and H1b are accepted, while H1c is rejected.

Our second model shows, that *conservation* (.185, p<.001) and *self-enhancement* (.125, p<.001) have significant positive effects on the SEW dimension *identification of family members with the firm*. Again, the control variable for

gender, female (.082,  $p < .01$ ) as well as *generation* (.084,  $p < .01$ ) show a positive relationship to the dimension. We conclude that H2a and H2b can be supported.

The SEW dimension *binding social ties* is the dependent variable of our third model. *Self-transcendence* (.339,  $p < .001$ ) and *conservation* (.104,  $p < .001$ ) show significant positive effects on this dimension. Regarding our set of control variables, only *age* (.080,  $p < .001$ ) has a significant positive influence. Both Hypotheses, H3a and H3b are thus supported.

Our fourth model shows that *self-transcendence* (.194,  $p < .001$ ) and *conservation* (.217,  $p < .001$ ) have significant positive effects on the SEW dimension *emotional attachment of family members*. Both control variables, *employees* (-.072,  $p < .05$ ) and *generation* of the firm (-.060,  $p < .05$ ), show significant negative influences on the dimension *emotional attachment of family members*. If the respondents, however, are *female* (.123,  $p < .001$ ), there is a positive influence. Therefore, both proposed Hypotheses, H4a and H4b are supported.

In our last model we observe, that *self-transcendence* (.104,  $p < .01$ ), *conservation* (.151,  $p < .001$ ) and *self-enhancement* (.094,  $p < .01$ ) have significant positive effects on the SEW dimension *renewal of family bonds*. However, the negative relationship of the higher order value *self-enhancement* and the dimension *R* could not be observed. The control variables *employees* (.069,  $p < .05$ ) and the *generation* of the firm (.167,  $p < .001$ ) also influence the dimension positively. Lastly, we can confirm our predictions on H5a and H5b, but reject H5c since no negative relationship can be found.

## **6.5 Discussion & Conclusion**

### **6.5.1 Theoretical implications**

The primary goal of this study was to investigate how values are connected to the framework of SEW, and thus influence the decision-making in family firms. Therefore, an OLS regression analysis on our final sample of 1003 family firms (Chua et al., 1999) was performed. In order to implement our study, we used the FIBER dimensions of Berrone et al. (2012) as dependent and the higher order values

of Schwartz (1992) as independent variables. Our models show a significant positive relationship between several higher order values and the FIBER dimensions, thus strongly supporting the often mentioned connection between values and SEW (Berrone et al., 2012; Fletcher et al., 2012; Gómez-Mejía et al., 2007; Marques et al., 2014). Furthermore, we used an established value construct to test which values are predominant within family firms. By investigating the ten distinctive values of Schwartz (1992), we observe, that self-direction, benevolence, universalism and security are the highest rated values, while tradition, stimulation and power represent the lowest. This, strikes us as quite surprising, as literature suggests, that family firms place a strong emphasis on tradition (Tagiuri & Davis, 1992) and keeping the heritage alive (Micelotta & Raynard, 2011; Mitchell et al., 2011; Zellweger, Kellermanns, Eddleston, et al., 2012). Having low values in power can also be seen as unexpected, as the need to stay in charge of the company, might be the most important decision-making factor for family businesses named so far (Berrone et al., 2012; Gómez-Mejía et al., 2007) also represented in the FIBER category F, which is rated highest among the FIBER dimensions. An explanation for this can be found by taking a closer look at the underlying values of Schwartz' value theory. The highest rated distinctive value self-direction, which is part of openness-to-change, includes such values as freedom, choosing own goals and independence, which according to theory, should closely connect to the FIBER dimension F. However, our regression analysis shows no significant relationship between the higher order value openness-to-change and dimension F. We thus believe, that critics concerning the FIBER model and especially the measurement of dimension F, to a certain extent, are justified (Hauck et al., 2016).

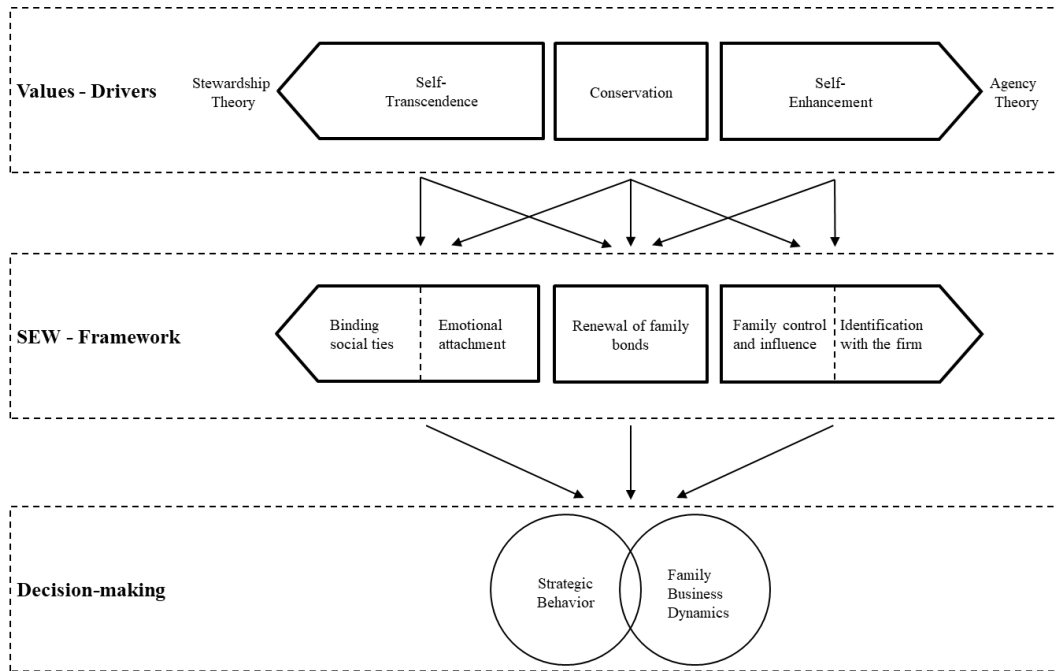
By taking a detailed look at the other higher order values, conservation shows a positive relationship with all FIBER dimensions. The opposing dimension, however, the higher order value openness-to-change, does not show any significant relationship. We deem this finding rather important, since our respondents rated openness-to-change the second highest dimension in our set of higher order values. As a preliminary explanation we presume, that, as previously mentioned, either the FIBER scale lacks a certain query that includes this particular value dimension, or, even if this higher order value is important to our respondents, has no direct

influence as value construct in the decision-making process. This however, can explicitly be seen in accordance with literature about stewardship in family firms, which is oftentimes used to explain behavioral aspects of family firms (J. H. Davis et al., 2010), as it “*explains situations which the leadership within organizations serves the organizational good and its mission rather than pursuing self-serving, opportunistic ends*” (J. H. Davis et al., 2010, p. 1093). We, therefore, argue that openness-to-change, while being important to the individual, does not seem to influence the decision-making process in family firms. This may be due to the general goals of the firm and that they are valued higher than the personal goals. We, therefore, conclude that the values included in conservation, self-enhancement, and self-transcendence dominate. Another aspect, why we see the value conservation, influencing all dimensions of FIBER, can be found in the assumption that it grasps the core, the very essence, of a family firm. Conservation is thus strongly linked to a firm’s heritage, the unique traditions, and the cultural embeddedness.

In recognition of the dominant influence of conservation and the insignificance of openness-to-change, we proceed in our discussion by focusing on the higher order values self-enhancement and self-transcendence. The value construct of self-enhancement can be connected to agency theory (Yuan & Wu, 2018) and we find strong correlations with the FIBER dimensions F, I and R. The values in category self-transcendence arguably are connected to the stewardship theory (Yuan & Wu, 2018), and we find a substantial influence on the FIBER dimensions B, E and R.

Additionally, we would like to point out the observed distinction of bipolar higher order values and that this distinction is clearly reflected in their impact on the FIBER dimensions. While this differentiation was to be expected, the finding that the bipolar relationship of these higher order values correlates with different SEW dimensions may notably advance research about family firms and decision-making. By contextualizing these findings with the proposition of Yuan and Wu (2018) and Chrisman et al. (2018), that either values connected to stewardship theory or values connected to agency theory in family firms to explain strategic behavior. We introduce and illustrate these connections in figure 21.

**Figure 21: Values as driver of decision-making in family firms**



Source: Own illustration.

We argue, that family firms make decisions according to a framework by applying different values as an underlying reference (Kluckhohn, 1951), wherein we propose that SEW is this framework. By employing this concept, we find that in the SEW-dimensions B and E the predominant values, showing influence are self-transcendence values. However, when this decisions' framework is rather associated with the dimensions F and I, family firm decisions will mainly exhibit self-enhancement values to justify their decision. Exemplary, family firms tend to have their own "financial logic" (Gallo, Tàpies, & Cappuyns, 2004), i.e. having lower average share capital and try to resist financial institutions or stock market investors, as it threatens their control and ownership of the company (Gallo et al., 2004; Gómez-Mejía et al., 2007). Thus, these decisions directly influence, e.g., the dimension family control and influence, triggering values such as power, authority and influence. Another example is the higher CSR engagement, which can be observed in family firms (Berrone et al., 2010; Campopiano & De Massis, 2015; Deephouse & Jaskiewicz, 2013; Dyer & Whetten, 2006; Van Gils, Dibrell, Neubaum, & Craig, 2014). CSR activities are mainly represented by dimension B. The positive influence of the higher order value self-transcendence with underlying

values such as benevolence and universalism was expectable. However, we see no connection of self-enhancement values influence dimension B, which was implied by previous research. Literature often suggested, that family firms mainly engage in CSR activities due to higher identification and preservation of the family firm's image in society (Berrone et al., 2010; Dyer & Whetten, 2006). Our findings, however, suggest, that the catalyst to engage in CSR activities is rather motivated by the mentioned intrinsic values of self-transcendence, meaning that enhancing the family firm's reputation is rather a side-product of the actual motivation.

Interestingly, we find a somewhat ambiguous result when applying our concept to the FIBER dimension R. This dimension is positively influenced by self-transcendent and by self-enhancement values, two higher order values that stand at the opposite of each other. This finding is surprising, as we expected somewhat different results. Early research highlighted, that the predecessor often lacks the willingness to hand over the business (Handler, 1989), as it is directly connected with a loss of authority, and often in his or her eyes with a loss of status within the family itself (Lansberg, 1988). Thus we hypothesized that self-enhancement should have a negative relationship to the dimension of R. In retrospective, we can explain our finding by taking a closer look at the pyramid of ownership motivation of Ward (1997). The most important factors in sustaining long-term family ownership, according to him, are connected to actualization and realization expressed by, e.g. responsible collective stewardship. Owners might believe that they have a personal responsibility in passing on the business to the next generation and feel "pride" (Kets de Vries, 1993) in doing so. We, therefore, argue, that the feeling of personal success by handing over the family firm successfully is stronger than the loss of authority, which comes with it. Thus, creating this family firm legacy reflects the positive effect of self-enhancement on dimension R.

Subsequently, our findings imply that family firms do not only differ amongst each other in their decision-making by emphasizing on different values, they also change their behavior according to the situation. This can further explain the heterogeneity (Jaskiewicz & Dyer, 2017) and often bespoke bivalent (Tagiuri & Davis, 1996) and inconsistent inner-workings of family firms.



In addition to our main findings, we noticed some mentionable secondary findings, which are implied through our control variables. The value of the dimension E negatively influences the generation of the firm, while dimensions R and E are positively influenced. Thus, our findings imply, that while the identification of family members with the firm increases over generations, the emotional bond to it weakens. We measured firm-size by numbers of employees, and find that values, in general, have a significant negative effect on the dimension F, we, therefore, can conclude that family control and influence is weaker in larger family firms. However, respondents from family firms with a higher employee count show a significant positive relationship on dimension R. This implies, that owners of larger family firms show a higher emphasize on handing over the business to the next generation by keeping the ownership in the hands of the family, while at the same time loosing direct control and influence. Lastly, we find that gender has a significant association with multiple FIBER dimensions. Our variable female, shows a significant positive relationship with F, E and I, indicating that they emphasize these dimensions stronger in comparison to male respondents (Nekhili, Chakroun, & Chtioui, 2018).

### **6.5.2 Research Limitations and Directions for Future Research**

Due to the somewhat exploratory nature of this study, our contribution faces some limitations that have to be considered when interpreting the results and applying them into a wider context. First, only a single representative per family firm was contacted by our survey. We instructed this person to assess his or her values in regard for the company as a whole, which may lead to a distortion through a social desirability bias. We, therefore, recommend, for future studies, that an attempt should be made to validate the value assessment by questioning several individuals within the same company. Second, as our sample is limited to German companies only, results may not necessarily be transferable to other countries and cultures. Nevertheless, due to the cultural proximity and already proven similarities of the value constructs in western countries (Schwartz, 1994), there is sufficient evidence for the transferability of the results. Future research, however, could make an effort in validating our results and applying them for other countries and cultures to see,

if and how the cultural context influences values and thus decision-making in family firms. Third, it is not possible to capture all conditions that might have an impact on the SEW framework. Thus, the situation of the company, life cycle stage, succession and external management should be part of future research projects. Fourth, we acknowledge the importance of the contributions of Yuan and Wu (2018) and Chrisman et al. (2018), that either values connected to stewardship theory or connected to agency theory and their implications for debt financing and investment in general and that further studies should elaborate more in-depth on this. We purposefully went a step prior, to examine Schwarz values in family firms to understand the underlying implications.

Finally, other directions originating from our findings could emphasize on the differentiation of family firms according to the mentioned split of values. Possible questions could be; Can family firms be divided into different groups displaying different predominant values? How does the ownership-structure influence the values of a family firm? Do certain values influence the performance of the family firm stronger than others? Which values in family firms are emphasized on a lower level of aggregation? Furthermore, as we observed a possible flaw in the measurement of family control and influence, future research could focus on further defining the FIBER scale.

### **6.5.3 Practical Implications**

The practical application of our contribution is manifold. First, if family firms have a clear understanding of the values they actively pursue and are exemplified by the owners or the owning family, the employee's values can be better aligned with the firm's values. By publicly displaying the values by which the family business is lived to stakeholders and shareholders, they are able to have a better understanding of the firm and thus, this may be beneficiary to tighten stronger bonds and build trust. In being aware of the inter-correlation of values and decision-making, owners and the steering family in the firm can actively counteract their behavior and thus make more objectively driven decisions.

#### **6.5.4 Conclusion**

We propose, that the driver behind SEW and thus a major influence on the decision-making in family firms is the concept of basic human values, underlying the family business system, wherein SEW acts as framework to decide which value construct needs to be satisfied by entering a certain decision-making path. In our sample of 1003 German family firms, we find support for our model since higher order values can be thoroughly connected to every FIBER dimension, showing that different values are predominant when decisions in the family firm are pursued.

## **7 Summary of the Findings of this Dissertation and Concluding Remarks**

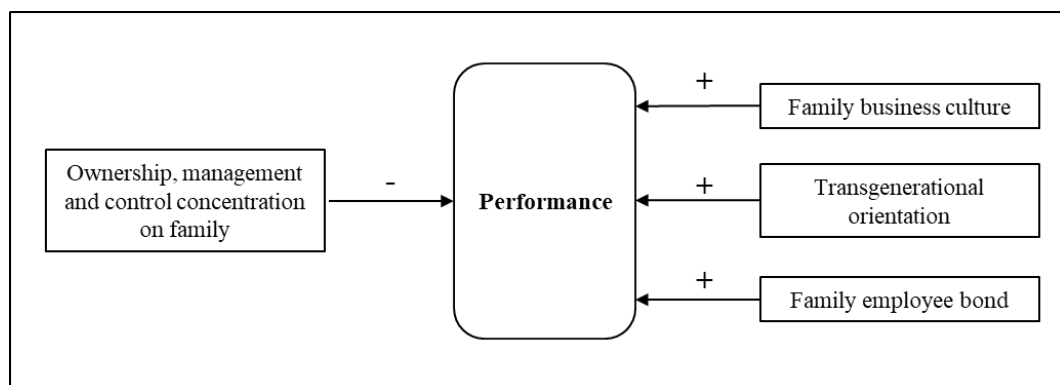
The main goal of this dissertation was to better understand the causes, triggers, and antecedents of survival or failure of family firms. This dissertation was motivated by the fact that many family businesses fail to survive in the long term (Handler, 1994; Le Breton-Miller et al., 2004; Ward, 1988) contrary to others that are very successful over many generations (Jaskiewicz et al., 2015; Kets de Vries, 1993). Thus, this dissertation examined three possible reasons for success or failure in detail: the familiness influence on the firm, information asymmetries in the business succession process and the impact of human values on firm behavior.

The first part of the dissertation explored the influence of familiness on firm performance. Previous studies have often focused on the distinctive culture of family businesses emanating from the owner family of the family business. However, empirical research about the impact of the owner family on the firm is still scarce. This paper contributes to the ongoing research by filling this gap, investigating how family influence impacts firm performance. Therefore, a survey with validated scales for the measurement of family influence and performance was conducted. The choice of a survey stemmed from the fact that previous studies have already used appropriate qualitative studies to determine familiness and its theoretical foundation (Frank et al., 2017, 2010; Habbershon & Williams, 1999). Therefore, this study built on these findings and used Frank et al.'s (2017) scale to gain generalizable insights in a broader context to better understand family businesses and offer recommendations for practice. Based on the ongoing discussion of familiness from different theoretical perspectives, such as the resource-based view (Habbershon et al., 2003) and the new systems theory (Frank et al., 2017), this dissertation discussed how familiness can have a significant influence on the performance of a firm. The quantitative study demonstrated that familiness influences the performance of family businesses in various ways. This study revealed in detail that not all components of familiness necessarily have a positive effect on performance. The data showed that an intense concentration of

ownership, management, and control on the family has a negative impact on the performance of the firms. In contrast, a strong family business culture, transgenerational orientation, and a good relationship between family and employees proved to enhance performance.

Figure 22 summarizes this part of the dissertation by showing the findings about the influence of the familiness and the family business culture on the firm performance.

**Figure 22: Familiness and Family Business Culture Influences on Firm Performance**



Source: Own illustration.

The second part of this dissertation concerns business succession, which is an important topic for our economy, mainly due to the high share of family businesses in the overall economy and is an interesting topic for research owing to the dynamics inherent in this process. The family-internal business succession process is characterized by its complexity, its often long duration (Le Breton-Miller et al., 2004), and the diversity arising from the individuality of the family businesses with their unique culture and structures (Gersick et al., 1997). Qualitative methods can best examine and adequately map the heterogeneity of family businesses (Chua et al., 2012). Therefore, research needs abstraction to reduce complexity and enable formulating models and hypotheses. These models and hypotheses can then be verified in a broader context using quantitative methods. Thus, the obtained results and models may not represent all specifics; yet, they can be applied to most companies. In this way, the recommendations offered for practice can be useful for

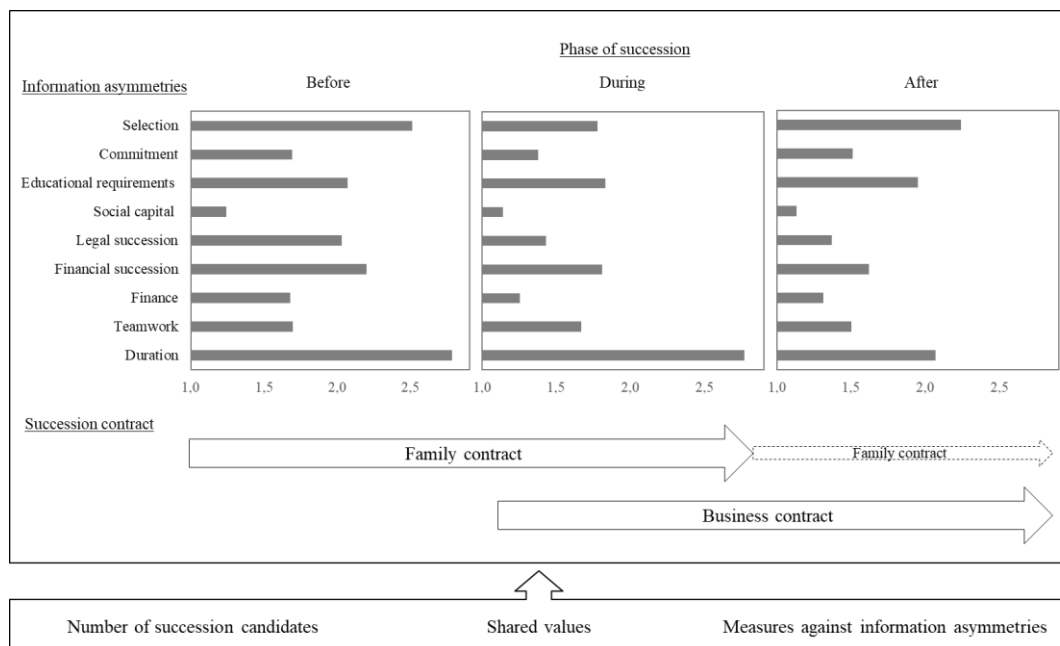
the largest possible number of companies. This dissertation followed this procedure and, in this part, focused on the analysis of information asymmetries in intrafamily business succession from an agency perspective. Therefore, a qualitative field study was carried out using interviews to determine whether and how information asymmetries exist in intrafamily business succession. A subsequent study with a quantitative survey was conducted to identify types of information asymmetries and demonstrate how and in what context these asymmetries and countermeasures are possible.

Chapter 4 focused on the emergence and existence of information asymmetries in family businesses. Embedded in a succession model, based on the different goals of the involved parties (Basco, 2017; Chua, Chrisman, De Massis, & Wang, 2018; Kotlar & De Massis, 2013; R. I. Williams et al., 2019), the informal family contract, and the business contract (Lubatkin et al., 2007), the study showed the context in which information asymmetries emerge in the business succession process. In this initial qualitative study, information asymmetries were found in various topic areas. Besides, the first indications of measures to handle information asymmetries were observed. Thus, the study offered a new theoretical view on information asymmetries in intrafamily business succession. By contrast, previous studies were based on the stewardship perspective, which assumes that family members act altruistically (Miller & Breton-Miller, 2006). Furthermore, we observed and investigated numerous role changes in the usual assignment of principals and agents. At the same time, however, a lack of awareness of information asymmetries was also discerned in some firms.

Chapter 5 focused on validating the existence of information asymmetries in internal family succession through a quantitative study in a broader context. The presence of information asymmetries as well as thematic areas in which information asymmetries occur was proven. It was also shown that information asymmetries change in the course of the succession process. In addition, it was observed that a higher number of potential successors favor the development of information asymmetries. Furthermore, it was shown that shared values between predecessor and successor lead to fewer information asymmetries.

Figure 23 summarizes this part of the dissertation by showing a model with the overall findings regarding information asymmetries in the intrafamily business succession.

**Figure 23: Overall Findings Regarding Information Asymmetries in the Intrafamily Business Succession**



Source: Own illustration.

The developed model divides the succession process into three phases: pre, during, and after. Within these phases, information asymmetries occur in all thematic areas investigated. The bar charts indicate the mean value of the frequency of the information asymmetries. It can be shown that the frequency of the information asymmetries varies between the respective thematic areas and over the three phases. These information asymmetries are based on two contracts (Lubatkin et al., 2007). First is the informal family contract. It starts long before the actual business contract, which begins with the entry of the successor into the firm. The family contract takes into account the time in which an internal family successor is exposed to the development and selection situation, which could even be since birth or early childhood. During this time, both the predecessor and the successor will set signals regarding the succession and their wishes connected with mutual expectations. The contract negotiations are informal and somewhat unstructured. With the entrance

of the successor into the firm, the business contract begins, which covers the business concerns for the succession (e.g., the legal or financial succession). At the same time, the family contract continues parallel to the family's expectations of the successor. However, the emergence of information asymmetries can also be influenced contextually. For example, it was seen that a higher number of potential successors could foster the development of information asymmetries. In contrast, shared values between predecessor and successor resulted in fewer information asymmetries. Moreover, it has been proven that family businesses already use mechanisms to counteract or reduce information asymmetries. For example, clear responsibilities and governance structures as well as tools and processes to professionalize the succession process counteract the emergence of information asymmetries.

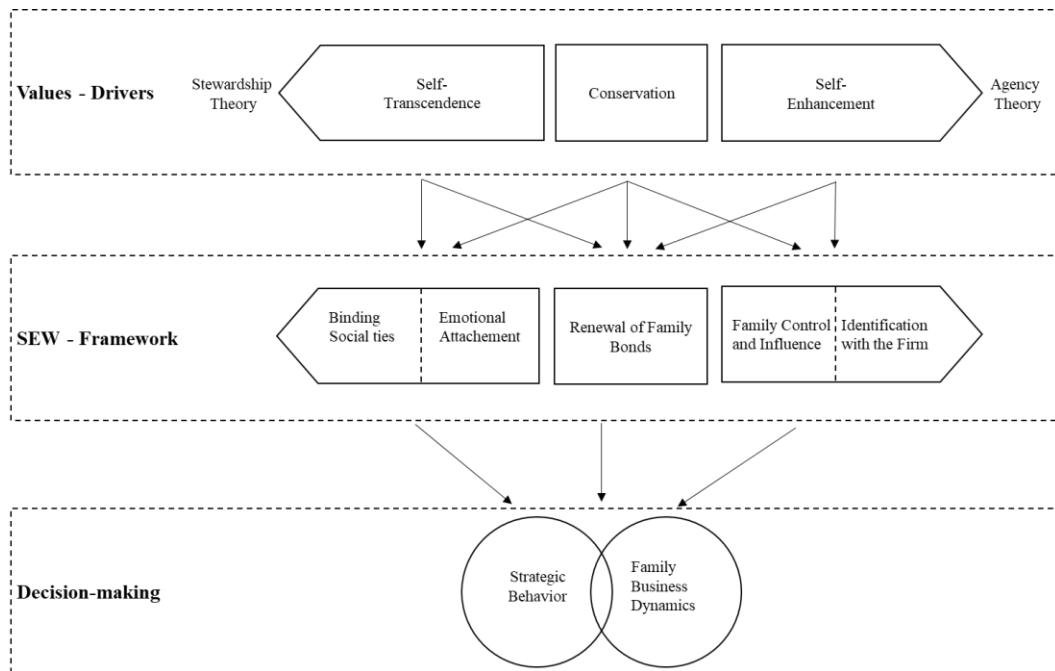
The last central part of this dissertation concerning the effects of values on the firm proves the positive relationship between the basic human values and the FIBER dimensions and thus strongly supports the often mentioned connection between values and socioemotional wealth (Berrone et al., 2012; Fletcher et al., 2012; Gómez-Mejía et al., 2007; Marques et al., 2014). Many authors have mentioned that values derived from family ownership can have a significant impact on the decision-making process (Chua et al., 2015; Fletcher et al., 2012; Gómez-Mejía et al., 2007; Pieper, 2010; Schulze & Kellermanns, 2015; Zellweger & Dehlen, 2012), build the basis upon which a family firm is founded (J. H. Davis et al., 2010), and influence the general behavior of family firms (Yuan & Wu, 2018). However, empirical research about how values manifest themselves, what values are predominant within a family firm, and how they influence the decision-making process is scarce (Duh et al., 2010; Koironen, 2002). We aimed to use our quantitative study to go beyond the existing literature and connect the construct of Schwartz's individual, basic human values to the multidimensional framework of socioemotional wealth. We argue that the locus and driver behind SEW and thus decision-making, strategic behavior, and family business dynamics in family firms are the values of the individual owner-manager and the corresponding family. Thus,



SEW builds the frame in which decisions are made while values are the roots from which decisions sprout.

Investigating Schwartz's (1992) ten distinctive values showed that self-direction, benevolence, universalism, and security are the highest rated values, while tradition, stimulation, and power represent the lowest. In this study, a dominant influence of the higher order value conservation and no significant influence of the higher order value openness-to-change on the FIBER dimensions was observed. The value construct of self-enhancement can be connected to agency theory (Yuan & Wu, 2018), and we found significant positive impacts on the FIBER dimensions F, I, and R. The values in category self-transcendence are arguably connected to the stewardship theory (Yuan & Wu, 2018), and we found a significant influence on the FIBER dimensions B, E, and R. Additionally, we observed distinct bipolar higher order values, the distinction of which is clearly reflected in their impact on the FIBER dimensions. While this differentiation was anticipated, the finding that the bipolar relationship of these higher order values correlates with different SEW dimensions may notably advance research about family firms and decision-making. This can be supported by contextualizing these findings using Yuan and Wu's (2018) and Chrisman et al.'s (2018) proposition that either values connected to stewardship theory or values connected to agency theory in family firms may explain strategic behavior. Figure 24 summarizes this part of the dissertation by showing the findings of the relationship between values, socioemotional wealth, and decision-making in a family business.

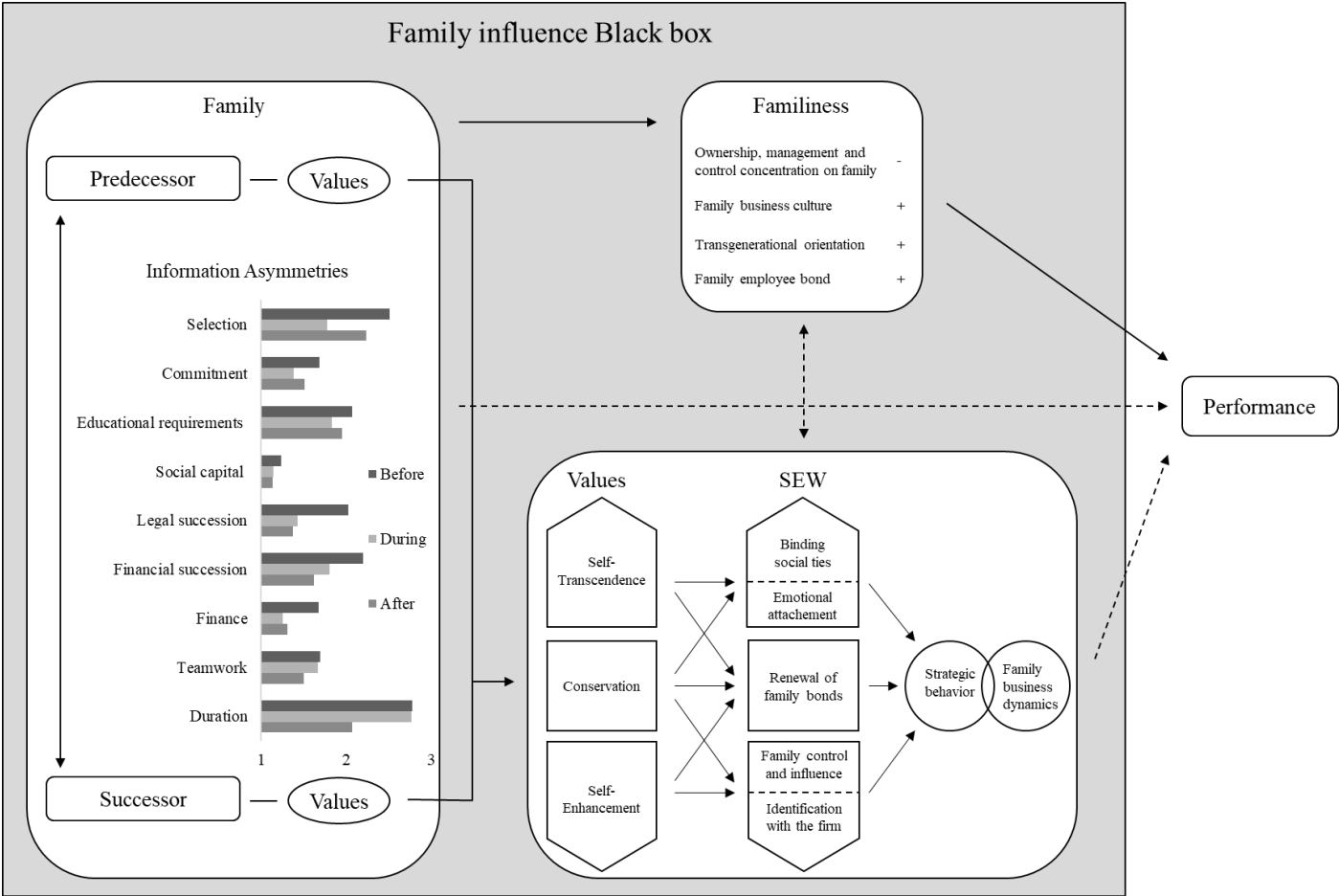
**Figure 24: Values as driver of decision-making in family firms**



Source: Own illustration.

From an overarching perspective, the presented studies reveal a common and particularly influential element, the family (Jaskiewicz et al., 2017). It is the family that influences the company's performance by influencing its decision-making; it is the family members among whom the intra-family business succession process takes place in which information asymmetries arise; and it is the family whose members have individual, basic human values, which influence the socioemotional wealth and thus the strategic decision-making of the firm. All of these examined relationships and influences have an impact on the performance of the firm and therefore represent potential causes, triggers, and antecedents of survival or failure of the firms, be it through the successful course of the business succession process with as few information asymmetries as possible or the influences of familiness and values via socioemotional wealth on decision-making and thus on the long-term performance of the firms (Cabrera-Suárez et al., 2001; Jaskiewicz et al., 2016; Lumpkin & Brigham, 2011; Miller & Le Breton-Miller, 2005). Figure 25 illustrates the relationships between the studies and the main findings of this dissertation.

**Figure 25: Summary of the examined family influences on the firm**



Source: Own illustration.

## **7.1 Theoretical Implications**

The presented studies each contribute to research by broadening existing knowledge in their respective fields and closing research gaps. The following section offers the most important implications in an aggregated form.

The first study regarding the familiness influence on the firm performance extends the existing knowledge about familiness and its effects on family businesses; it investigates these effects arising from the premise-setting role of familiness for the decision-making process in family businesses (Frank et al., 2017). This is the first study that provides empirical data on measuring the influence of familiness on firm performance using a validated scale for familiness; it shows which parts of familiness influence the performance of the family firms and how. The results illustrate strong positive impacts through generational thinking on the one hand and through the promotion of a strong bond between family and employees on the other. Besides, an overall perspective shows that the family business culture also has a positive impact on firm performance. On the contrary, the concentration of ownership, management, and control on family members has a clearly negative effect on the performance of the firm. In addition to the results for parts of the familiness, which can be a starting point for further research, the measurement of familiness and its connection with performance proves the previously assumed relationship (Habbershon & Williams, 1999; Rutherford et al., 2008) that familiness has mainly a positive impact on the firm performance in detail. These findings show that both family businesses (Jaskiewicz & Dyer, 2017) and familiness and its impact are heterogeneous. This could explain the differences between family businesses as well as between family and non-family businesses.

Drawing on qualitative and quantitative empirical data, the second part of the dissertation shows that information asymmetries exist in family business succession and that the agency perspective is applicable even in this close family relationship. Thus, thematic categories can determine which information asymmetries occur, and at the same time, it can be shown that information asymmetries change in the course of the succession process. Both studies are pioneering works, providing evidence

about information asymmetries in this context. Moreover, they offer a fundamentally different perspective for the research field, which has been neglected so far. The stewardship perspective used to be the prevailing theory in the family business context before (Madison et al., 2016); however, it is not suitable to explain the existing agency costs in family businesses (Zellweger & Kammerlander, 2015). Thus, this new perspective offers the possibility of research in the family business context from a different point of view. The evidence of information asymmetries also supports the theoretical and empirical need for the existence of advisors or governance structures based on the type of information asymmetries that family firms must address (Dehlen et al., 2014; Michel & Kammerlander, 2015; Strike et al., 2018; Van Helvert-Beugels, Van Gils, & Huybrechts, 2019).

Furthermore, it turned out that the roles of the principal and agent were not assigned clearly or in the way that was initially expected. These roles can switch between the predecessor and the successor, depending on the interdependence of the two actors; this is also associated with the observation that information asymmetries can emanate from both parties involved. Finally, it was shown that on the one hand, some factors as a high number of successors can foster the emergence of information asymmetries. Thus, our results strongly support the need for communication and planning regarding successor selection and a clear decision on successors, agreeing with the recommendations of Schleppehorst & Moog (2014) and Basco & Calabrò (2017). On the other hand, some factors can counteract the emergence of information asymmetries, such as family members' shared values, professionalization instruments (e.g., strategic advisors) (Michel & Kammerlander, 2015; Strike et al., 2018), or governance structures (Suess, 2014; Zellweger & Kammerlander, 2015). The shared values can be helpful in this context through their positive influence on the alignment of goals between the involved parties (Frank et al., 2010).

The study on the influences of values on the firm makes several contributions to the family-business research stream. First, we tested the frequently mentioned connection between values and SEW and how values influenced decision-making processes. Second, in the context of family firms, it was the first quantitative

empirical study that explored values in a structured manner, using a validated measurement grounded in socio-psychological studies, which allowed us to identify the predominant values existing in family firms based on the theory of basic human values (Schwartz, 1992). Lastly, we used Berrone et al.'s (2012) FIBER scale with a robust data set of German family firms; hence, this study was the first that presented empirical data on socioemotional wealth and thus contributed to the body knowledge.

In summary, it was shown that the family behind the company has a direct influence on business performance and survival. This influence was first shown directly through the impact of familiness on performance. Second, it was shown within the family itself, in the business succession process, that information asymmetries could harm the further success of the firm. Third, the impact was shown through the influence of the individual family members' values on socioemotional wealth and thus on decision-making and performance. These findings provide more nuanced insights into the processes and relationships within the black box of the owner family's influence on the family business and underline the importance of considering the family more seriously in family business research.

## **7.2 Managerial Implications**

Practitioners can use the studies and models presented in this dissertation to gain useful input for their leadership. First, regarding the influence of familiness on firm performance, practitioners can benefit from how familiness impacts the family business. The perspective of the underlying premises for decision-making by familiness (Frank et al., 2017) may facilitate the understanding of the decision-making process in the family business; only an awareness about familiness can make the monitoring and management of familiness possible. Management is advised to scrutinize the positive and negative effects of familiness reported in this dissertation. It is possible to reduce the negative impact of the concentration of ownership, management, and control within the family by for example the raising awareness about the higher risk aversion, altruism toward family members, and the need for monitoring mechanisms for family members to counteract potential

performance constraints in this area. This finding could also encourage further debates about other succession modes, such as foundation solutions or simple forms of succession to only one successor to reduce complexity and potential drain of capital. The positive effects reported herein could also be fostered. The transgenerational orientation and the binding between the family and employees could be promoted through early succession planning, long-term planning, long-term employment, or a good bond between the family and employees. Thus, specific components of familiness could be used as adjustment parameters for the long-term success of family businesses through their promotion or weakening.

Second, the awareness of information asymmetries in succession should be refined, as the studies have clearly shown that this awareness is very weak, although information asymmetries occurred in all examined cases. The mechanisms mentioned for the professionalization of business succession with only a few clearly and early named successors, a structured process with clear communication, a development plan, and the involvement of the successor (Le Breton-Miller et al., 2004; Schleppehorst & Moog, 2014) can also help in counteracting the emergence of information asymmetries. Furthermore, it has been shown that the goals of the involved generations are not necessarily the same (Aparicio et al., 2017; Kotlar & De Massis, 2013), what all involved parties should be aware of. At the same time, it was also possible to show that shared values regarding the family business (Kammerlander et al., 2015) can help in overcoming self-interest and information asymmetries through goal alignment among the involved persons. The evidence about information asymmetries in the succession process is also of high relevance to advisors, especially since their successful consultation may be dependent on knowledge and awareness of information asymmetries in the context. Advisors are also advised to pay particular attention to the identification of the roles of the actors involved in the process as well as their communication to identify and resolve agency conflicts.

The last study suggests that, for practical application, family firms need a clear understanding of the values that they actively pursue and are exemplified by the owning family. This knowledge will help them align the employees' values with

those of the firm. By publicly displaying the values of the family business to the stakeholders and shareholders, family firms can develop a better understanding of their firms and thus forge stronger bonds and build trust. Owners' awareness of the relationship between values and decision-making can assist them in steering their firms deliberately, controlling and critiquing their decisions consciously, and thus moving toward taking more objective decisions.

Overall, the results of this study demonstrate the significant influence of the family on the firm, be it the success of the succession, the impact of the family on performance, or the influence of the values via socioemotional wealth on decision-making. Therefore, managers and consultants are advised to consider the impact of the family on the company and that of the individual family members behind the company, particularly as both families and influences have proven to be very heterogeneous (Jaskiewicz & Dyer, 2017).

### **7.3 Limitations and Future Research**

Some limitations are associated with the design and methods used in the studies. These limitations have already been discussed in detail within the chapters as part of the respective studies; therefore, the following section only provides an aggregated summary of the most important limitations.

Concerning the first part of the dissertation on the influence of familiness on the firm performance, the reliance on single informants per firm, and the self-assessment of the respondents can be considered as limitations. Hence, it would be useful to include several stakeholders of the company and the family in future studies to obtain a more accurate picture of familiness. Concerning performance, more attempts can be made to collect more precise key figures or conduct longitudinal and panel studies to measure the influence, if any, of long-term changes in familiness. Finally, the study is based on data from German-speaking countries. Therefore, it would be fascinating to replicate the study in other countries and especially in different cultures to compare the results. Furthermore, little is known about family members' awareness of familiness; therefore, it would be



exciting to know if awareness about familiness has any impact on it and how, if possible at all, this can be consciously manipulated.

The studies in the middle part of the dissertation on information asymmetries in business succession could somewhat overcome some of the limitations. For example the generalizability as a limitation of qualitative studies was already addressed by the quantitative study. Similarly, the qualitative study could delve into the subject and extend the theoretical model of succession close to reality, which is often difficult to achieve with quantitative studies.

Unfortunately, it was not possible in the studies to investigate failed successions, which would have been very valuable, especially in the investigation of information asymmetries, given that these could be the reasons for failure. Second, it was discovered that information asymmetries are evaluated retrospectively differently than within the succession phases. Moreover, it is not clear how conscious family members are about the existing information asymmetries. Therefore, future researchers investigating this topic are advised to either design a panel study and conduct multiple structured interviews or examine the firms using longitudinal interviews and observations. Third, we have based our analyses primarily on a dyad relationship (Gooty & Yammarino, 2011) with a predecessor and a successor in which the respective persons provide information directly themselves. It would, therefore, be interesting if future research investigates more complex family constructs with team succession solutions, if possible. In addition, it would be interesting to include the roles of other family members in the analysis. Finally, the data of the presented studies offer little information about the concrete outcomes of information asymmetries. Thus, no direct connections to agency problems, such as adverse selection, moral hazard, or hold-up, were made, mainly because the motivation for the respective information asymmetry would always be decisive. It would also be interesting if future studies investigate these motivations and the possibility of classifying these typical agency problems.

In our last study on the influence of the values, only single representatives per family firm completed our survey. We instructed this person to assess his values in relation to the company as a whole, which could have been distorted by social

desirability bias. Therefore, we recommend that future studies validate the assessment of values by questioning several individuals within the same company. Furthermore, as our sample was limited to German companies, results may not be readily transferable to other countries and cultures. Nevertheless, due to cultural proximity and already proven similarities of the value constructs in western countries (Schwartz, 1994), there are sufficient grounds for the transferability of the results. Future research can validate our findings by applying them to other countries and cultures to see whether and how culture influences values and thus, decision-making in family firms.

From the superordinate perspective and the relevance of the family, due to its role as the underlying system and frame for the processes, future studies need to include the family in their research on family businesses and examine it more profoundly. Through a consistent analysis of family structures and the relationships of family members among each other, a variety of new insights can be gained in family business research. Thus, the heterogeneity of family businesses can also be taken into account (Jaskiewicz & Dyer, 2017). Further research questions arise from this dissertation that would be worth exploring in further studies. For example, in a follow-up study, we are already investigating the impact of decision-making influenced by the values via socioemotional wealth on performance. It would also be interesting to examine in a future study whether and how the influence on the company of familiness and values via socioemotional wealth can be distinguished from each other or the extent to which these impacts overlap.

## **7.4 Conclusion**

In this dissertation, the influence of family ownership on company performance was examined and demonstrated in detail. In particular, a negative effect of the concentration of ownership, management, and control on performance was identified. On the contrary, the positive effects of the transgenerational orientation and the binding between family and employees on performance within the family firm were also identified. Both the FIFS and the recently used F-PEC scale for measuring familiness were used in this study. The results showed that the FIFS is

particularly suitable for measuring familiness and its components. The F-PEC scale, on the other hand, is more appropriate for the intended use of classifying companies as family businesses.

Furthermore, it could be proven that information asymmetries occur in the intrafamily business succession and that these can negatively affect the succession process. These information asymmetries occur in all thematic areas addressed in the succession process, albeit to varying degrees, and change during the course of the process. The agency theory can be useful for collecting new theoretical and empirical data to link information asymmetries to the current best practice models for the succession process. For example, succession planning, the pool of succession candidates, and the nurturing and development process can be linked to the emergence of information asymmetries. Besides, it could be shown that some successful family businesses already use various measures and processes to prevent information asymmetries or counteract their impact effectively when they arise.

Moreover, it could be shown that the driver behind socioemotional wealth and thus a significant influence on the decision-making in family firms is the concept of basic human values, underlying the family business system in which SEW acts as a framework for determining which value construct needs to be satisfied by entering a specific decision-making path. We also found support for our model that higher order values can be thoroughly connected to every FIBER dimension, showing that different values are predominant when decisions in the family firm are pursued.

Overall, the enormous influence of the family on the firm through familiness, the relationships between predecessors and successors, their behavior in the succession process, and the impact of the individual values of the family members were identified in this dissertation, as drivers for the long-term performance and thus also for the survival of family businesses.

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# Appendix
















## Appendix to Chapter 3. Questionnaire (excerpts)




### FIFS

How do the following statements apply to your family business?						
	Strongly disagree					Strongly agree
<b>In our family business we take great care...</b>						
... that only family members are owners of the firm.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... that the firm's management consists exclusively of family members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... that several family members are involved in the firm's management.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... that family control and independence are maintained.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>In our family business we take great care...</b>	Strongly disagree					Strongly agree
... that family members working in the company have at least the same qualifications as nonfamily employees.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... that family members working in the company show at least the same performance as nonfamily employees.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>In our family business we take great care...</b>	Strongly disagree					Strongly agree
... that family members working in the company know about important events in the company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... that all family members working in the company are also able to make use of informal communication.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>In our family business we take great care...</b>	Strongly disagree					Strongly agree
... to think in generations.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... to avoid selling the company to nonfamily members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... that the company can be passed on to the next generation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>In our family business we take great care...</b>	Strongly disagree					Strongly agree
... that family members working in the company are confidants for the employees.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... to have a reliable permanent staff.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... to secure our employees' jobs also in times of crisis.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... to safeguard promotion and development our employees.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... that the family members working in the company have a lively exchange with nonfamily employees.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>In our family business we take great care...</b>	Strongly disagree					Strongly agree
... that the family gives a face to the company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... that our family business is socially active in the community/region.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... to always market our family business as such.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... to convey the history of our company to our employees.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Source: (Frank et al., 2017)


## F-PEC

How many family members do actively participate in the business?	
How many family members do not actively participate in the business but are interested?	
How many family members are not (yet) interested at all?	
<b>Distribution of persons in management of the firm</b>	
How many members has the management of the firm?	
How many members of the management of the firm are family members?	
How many nonfamily (external) members nominated by the family are in the management of the firm?	
<b>Which generation owns the company?</b> <i>(Founding generation = 1. generation)</i>	<input type="checkbox"/> 1. generation <input type="checkbox"/> 4. generation <input type="checkbox"/> 2. generation <input type="checkbox"/> 5. generation <input type="checkbox"/> 3. generation <input type="checkbox"/> 6. generation or higher
<b>Which generation(s) manage(s) the company at the moment?</b> <i>(Founding generation = 1. generation)</i> <i>Multiple selection possible.</i>	<input type="checkbox"/> 1. generation <input type="checkbox"/> 4. generation <input type="checkbox"/> 2. generation <input type="checkbox"/> 5. generation <input type="checkbox"/> 3. generation <input type="checkbox"/> 6. generation or higher
<b>Is the company currently in the succession process between two generations?</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>Are the shares held in a holding company or similar entity (e.g., trust)?</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>If yes: Please indicate the proportion of ownership.</b>	
Main company owned by:	Direct family ownership:    %  Direct nonfamily ownership:    %  Holding company:    % 
Holding company owned by:	Direct family ownership:    %  Direct nonfamily ownership:    %  Holding company:    % 
<b>Does the business have a governance board?</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>If yes:</b>	
How many board members does it comprise?	
How many board members are family members?	
How many nonfamily (external) members nominated by the family are on the board?	
<b>Which generation is active on the governance board?</b> <i>(Founding generation = 1. generation)</i> <i>Multiple selection possible.</i>	<input type="checkbox"/> 1. generation <input type="checkbox"/> 4. generation <input type="checkbox"/> 2. generation <input type="checkbox"/> 5. generation <input type="checkbox"/> 3. generation <input type="checkbox"/> 6. generation or higher

<b>Does the business have a management board?</b>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
<b>If yes:</b>		
How many persons does it comprise?		
How many management board members are family members?		
How many nonfamily (external) members nominated by the family are on the management board?		
<b>Please rate the extent to which you agree with the following statements.</b>	Not at all	To a large extent
Your family has influence on your business.	<input type="checkbox"/>	<input type="checkbox"/>
Your family members share similar values.	<input type="checkbox"/>	<input type="checkbox"/>
Your family and your business share similar values.	<input type="checkbox"/>	<input type="checkbox"/>
<b>How do the following statements apply to your family business from a family perspective?</b>	Strongly disagree	Strongly agree
Our family members are willing to put in a great deal of effort beyond the normally expected in order to help the family business to be successful.	<input type="checkbox"/>	<input type="checkbox"/>
We support the family business in discussions with friends, employees, and other family members.	<input type="checkbox"/>	<input type="checkbox"/>
We feel loyalty to the family business.	<input type="checkbox"/>	<input type="checkbox"/>
We think that our values are compatible with those of the business.	<input type="checkbox"/>	<input type="checkbox"/>
We are proud to tell others that we are part of the family business.	<input type="checkbox"/>	<input type="checkbox"/>
There is so much to be gained by participating within the family business on a longterm basis.	<input type="checkbox"/>	<input type="checkbox"/>
We agree with the family business goals, plans and policies.	<input type="checkbox"/>	<input type="checkbox"/>
We really care about the fate of the family business.	<input type="checkbox"/>	<input type="checkbox"/>
Deciding to be involved with the family business has a positive influence on my life.	<input type="checkbox"/>	<input type="checkbox"/>
I understand and support my family's decisions regarding the future of the family business.	<input type="checkbox"/>	<input type="checkbox"/>

Source: (Astrachan et al., 2002)

## Performance

<b>How would you rate the performance of your company according to the following factors compared to your competitors over the past 3 years?</b>	much worse <span style="float: right;">much better</span>				
Sales growth	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit growth	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in the number of employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Net profit margin	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Product / service innovation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Process innovations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Introduction of new technologies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Product / service quality	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Product / service offer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customer satisfaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Return on equity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cash Flow	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>How successful is your company at the moment in general?</b>	not successful at all		very successful		
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>What was the total turnover of your company last year (in million EUR)?</b>	mio. EUR 				

Sources: (Eddleston et al., 2007; Naldi et al., 2007; Smolka et al., 2016; Wiklund & Shepherd, 2003, 2005)

## Appendix to Chapter 6. Questionnaire (excerpts)

### SEW - FIBER

Please indicate your approval to the statements.					
<b>Family Control and Influence</b>	Strongly disagree		Strongly agree		
The majority of the shares in my family business are owned by family members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In my family business, family members exert control over the company's strategic decisions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In my family business, most executive positions are occupied by family members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In my family business, nonfamily managers and directors are named by family members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The board of directors is mainly composed of family members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Preservation of family control and independence are important goals for my family business.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Identification of Family Members With the Firm</b>	Strongly disagree		Strongly agree		
Family members have a strong sense of belonging to my family business.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Family members feel that the family business's success is their own success.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My family business has a great deal of personal meaning for family members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Being a member of the family business helps define who we are.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Family members are proud to tell others that we are part of the family business.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customers often associate the family name with the family business's products and services.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Binding Social Ties</b>	Strongly disagree		Strongly agree		
My family business is very active in promoting social activities at the community level.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In my family business, nonfamily employees are treated as part of the family.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In my family business, contractual relationships are mainly based on trust and norms of reciprocity.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Building strong relationships with other institutions (i.e., other companies, professional associations, government agents, etc.) is important for my family business.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Contracts with suppliers are based on enduring long-term relationships in my family business.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<b>Emotional Attachment of Family Members</b>	Strongly disagree				Strongly agree
Emotions and sentiments often affect decision-making processes in my family business.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Protecting the welfare of family members is critical to us, apart from personal contributions to the business.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In my family business, the emotional bonds between family members are very strong.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In my family business, affective considerations are often as important as economic considerations.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Strong emotional ties among family members help us maintain a positive self-concept.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In my family business, family members feel warmth for each other.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Renewal of Family Bonds Through Dynastic Succession</b>	Strongly disagree				Strongly agree
Continuing the family legacy and tradition is an important goal for my family business.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Family owners are less likely to evaluate their investment on a short-term basis.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Family members would be unlikely to consider selling the family business.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Successful business transfer to the next generation is an important goal for family members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Source: (Berrone et al., 2012)

### Portrait Values Questionnaire

<b>Please indicate how much this person is like you.</b>						
	Not like me at all					Very much like me
He thinks it is important that every person in the world be treated equally. He believes everyone should have equal opportunities in life. (UN-3)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It is important to him to listen to people who are different from him. Even when he disagrees with them, he still wants to understand them. (UN-8)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
He strongly believes that people should care for nature. Looking after the environment is important to him. (UN-19)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
He believes all the worlds' people should live in harmony. Promoting peace among all groups in the world is important to him. (UN-23)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
He wants everyone to be treated justly, even people he doesn't know. It is important to him to protect the weak in society. (UN-29)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It is important to him to adapt to nature and to fit into it. He believes that people should not change nature. (UN-40)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It's very important to him to help the people around him. He wants to care for their well-being. (BE-12)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<b>Please indicate how much this person is like you.</b>	
	Not like me at all      Very much like me
It is important to him to be loyal to his friends. He wants to devote himself to people close to him. (BE-18)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
It is important to him to respond to the needs of others. He tries to support those he knows. (BE-27)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Forgiving people who have hurt him is important to him. He tries to see what is good in them and not to hold a grudge. (BE-33)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
He believes that people should do what they're told. He thinks people should follow rules at all times, even when no one is watching. (CO-7)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
It is important to him always to behave properly. He wants to avoid doing anything people would say is wrong. (CO-16)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
He believes he should always show respect to his parents and to older people. It is important to him to be obedient. (CO-28)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
It is important to him to be polite to other people all the time. He tries never to disturb or irritate others. (CO-36)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
He thinks it's important not to ask for more than what you have. He believes that people should be satisfied with what they have. (TR-9)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Religious belief is important to him. He tries hard to do what his religion requires. (TR-20)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
He thinks it is best to do things in traditional ways. It is important to him to keep up the customs he has learned. (TR-25)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
It is important to him to be humble and modest. He tries not to draw attention to himself. (TR-38)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
It is important to him to live in secure surroundings. He avoids anything that might endanger his safety. (SC-5)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
It is very important to him that his country be safe. He thinks the state must be on watch against threats from within and without. (SC-14)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
It is important to him that things be organized and clean. He really does not like things to be a mess. (SC-21)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
He tries hard to avoid getting sick. Staying healthy is very important to him. (SC-31)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Having a stable government is important to him. He is concerned that the social order be protected. (SC-35)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
It is important to him to be rich. He wants to have a lot of money and expensive things. (PO-2)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
It is important to him to be in charge and tell others what to do. He wants people to do what he says. (PO-17)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
He always wants to be the one who makes the decisions. He likes to be the leader. (PO-39)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
It's very important to him to show his abilities. He wants people to admire what he does. (AC-4)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Being very successful is important to him. He likes to impress other people. (AC-13)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

<b>Please indicate how much this person is like you.</b>	
	Not like me at all      Very much like me
He thinks it is important to be ambitious. He wants to show how capable he is. (AC-24)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Getting ahead in life is important to him. He strives to do better than others. (AC-32)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
He seeks every chance he can to have fun. It is important to him to do things that give him pleasure. (HE-10)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Enjoying life's pleasures is important to him. He likes to 'spoil' himself. (HE-26)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
He really wants to enjoy life. Having a good time is very important to him. (HE-37)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
He thinks it is important to do lots of different things in life. He always looks for new things to try. (ST-6)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
He likes to take risks. He is always looking for adventures. (ST-15)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
He likes surprises. It is important to him to have an exciting life. (ST-30)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Thinking up new ideas and being creative is important to him. He likes to do things in his own original way. (SD-1)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
It is important to him to make his own decisions about what he does. He likes to be free to plan and to choose his activities for himself. (SD-11)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
He thinks it's important to be interested in things. He likes to be curious and to try to understand all sorts of things. (SD-22)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
It is important to him to be independent. He likes to rely on himself. (SD-34)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

co = conformity; tr = tradition; be = benevolence; un = universalism; sd = selfdirection; st = stimulation; he = hedonism; ac = achievement; po = power; sc = security. All statements were randomized in the questionnaire and presented in a male, female or neutral form, depending on the gender information.

Sources: (Cieciuch & Davidov, 2012; Schmidt et al., 2007; Schwartz et al., 2001)

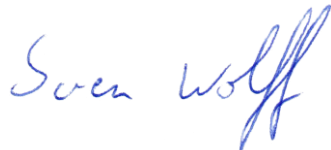


### **Eidesstattliche Erklärung**

Hiermit versichere ich, dass ich die vorliegende Arbeit selbstständig verfasst und keine anderen als die angegebenen Quellen und Hilfsmittel benutzt habe, insbesondere keine anderen als die angegebenen Informationen aus dem Internet.

Diejenigen Paragraphen der für mich gültigen Promotionsordnung, welche etwaige Betrugsversuche betreffen, habe ich zur Kenntnis genommen.

Der Speicherung meiner Arbeit zum Zwecke der Plagiatsprüfung stimme ich zu. Ich versichere, dass die elektronische Version mit der gedruckten Version inhaltlich übereinstimmt.



Sven Wolff

Siegen, 21. Juni 2019