Governance in Small Family Firms

Laying the Groundwork in a Swedish Study

Jönköping, May 2016
Acknowledgements

We, the authors, would like to acknowledge the people that helped and supported us throughout the process of this Master Thesis.

A special thanks goes out to our tutor, Hans Lundberg, for providing us with constructive input and guidance throughout this work. In addition, all of our seminar members receive praise for their enthusiasm in providing feedback to us.

Finally, we would like to acknowledge the interviewees of our sample companies for cooperating with us and for allowing us to gain such valuable insights into their private and business lives. Without them, this thesis would rest on unstable grounds.

Thank you!

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Jönköping, May 2016
Abstract

Key terms: small family firm, governance, structures, micro firm, Sweden

The governance field is well studied. However, small family firms do not receive their fair amount of coverage, despite their importance. In this work the field of governance in small family firms is qualitatively explored, using a sample of eight Swedish firms with a total of ten interview partners. Using a Constructivist Grounded Theory, informed by previous literature, we find nine key themes characterizing governance in small family firms: (1) Ownership & Board, (2) Holding Company, (3) Advisor & External Help, (4) Responsibility, (5) Formality, (6) Informality, (7) Conflict, (8) Succession and (9) Discussion & Conversation. Our findings suggest that all small family businesses employ some form of governance, however, this is not always recognized as such in previous literature, showing that corporate governance is too narrowly defined. We also investigate why governance structures are (not) implemented and how this is done. In connection to this, we visualize the factors influencing whether or not a small family firm implements formal governance structures. Additionally, we discuss what actually makes a family firm small. We contribute by investigating governance concepts in another context, namely the one of small family businesses, and seeing to what extent they hold up. The work allows us to conclude that some findings confirm existing theory, while others question it or cannot be found therein at all.
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1 Background

Family businesses account for 80-98% of all businesses in the world’s free economies and employ between 50-75% of the workforce around the globe (Poza & Daugherty, 2014). In the United States, they were responsible for 86% of jobs created in the decade between 1999 and 2009 (Poza & Daugherty, 2014). Even more so, family firms make up 37% of Fortune 500 companies and outperform non-family businesses in Europe on average anywhere between 8-16% in return on equity, depending on which study is being looked into (Poza & Daugherty, 2014). Simply with stand-alone statements like these, in our case on economic figures, we could introduce our readers to the topic and relevance of family firms. However, we do not intend to build our argument this way. Although recognizing the economic importance that family firms certainly have, we do not want to impose on the reader that their significance in different facets was not up for debate. We are keeping an open mind as to what is and what there is to find and will introduce below which aspects we intend to explore further in this work.

As Poza & Daugherty (2014) show, the field of family business research is relatively young and has just passed its infancy stage with the first significant work dating back only to 1975, and anything that followed until 1990 being primarily anecdotal. It only comes natural that there is still a multitude of gaps and understudied areas. Chrisman, Chua & Sharma (2005) show that literature gives little insight into what family firms execute to use the unique resources and capabilities they have. It is therefore not surprising of Astrachan (2010) to comment that if a field ever required greater recognition and more outlets for research and theory, then it is the field of family business, where the share of journals concerned with it in relation to overall journals is negligible. However, in the opening paragraph we have established that the importance and contribution of family businesses to the economies is not at all negligible. Scholars often use this noticeable dominance of family businesses in the economy of the majority of nations as a reason to do initial research on family businesses (e.g. Navarro & Ansón, 2009). Although Sharma (2004) agrees that this was an effective starting point in the generation of attention and interest, she urges that this one-sided view is not enough to gain legitimacy for the field. Rather, convincing answers based on theory must be offered to different questions like whether or not family firms really are different from non-family ones and why those firms merit special attention in research (Sharma, 2004). Our statements on problem and purpose shall pick up on this and provide insights especially on the latter.

Using the aforementioned as a point of departure and considering that family businesses are among the most significant contributors to wealth in nearly every country of the world, Sarbah & Xiao (2015) note that their state of governance gives reason for worry. A recent survey conducted globally on family businesses underlines this by stating that 71% of the firms in the sample have not yet adopted procedures for resolving conflicts among family members (PwC, 2014) - an essential element of family firm governance. Adding to that, The Economist quotes a study revealing that only 16% of family firms around the globe do have a documented and discussed plan for succession in place, although no subject was potentially more toxic than the generational transition process of a family firm (The Economist, 2014). The abovementioned arguments are in line with a confirmative research strategy and give the impression that this is an enormous problem field we are pinpointing at. But could it be that this “lack” of governance is intended? Different companies need different governance structures and such structures that fit large and publicly listed firms may or cannot be suitable for family firms (Nordqvist, Sharma & Chirico, 2014; Corbetta & Salvato, 2004). In addition, family firms themselves are extremely heterogeneous, which is why governance issues vary strongly among them (Goel, Jussila & Ikäheimonen, 2014). Too much formality and multiple governance instruments presumably take up unnecessary resources, which results in inefficiencies, especially in family businesses with a simple management and ownership structure, with centralized authority and simple incentives (Nordqvist et al., 2014). Taking into consideration that 94% of businesses in Sweden1 have less than 10 employees (OECD, 2002)2, the argument of Nordqvist et al. (2014) gains in significance. This shows again that there are always two sides of the same coin and it could very

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1 The country our research is being conducted in.
2 We are elaborating on this in section 2.2.2.
well be that governance, as it is known in literature, is not present in many family firms simply because it is not beneficial to them. So although a deficiency of governance (as we know it) may be a common thread and intended, depending on their structure, it could also be problematic for bulks of businesses.

We could speculate that the low numbers regarding documented governance mechanisms in family firms are connected to a lack of understanding regarding it (and its importance), or that they have problems in deciding over their implementation, resulting in no actions. We could also speculate that this is somehow connected to the under-representation in literature. However, with this we would fall victim to assumptive thinking and presuppose conclusions without first proving the statements to be correct. Instead, we opt to show multiple views on the subject matter and hint at contrary views on the topic, not just at anecdotal statements that would suit our work best. We simply cannot say yet that there is a lack of understanding (of the importance) of governance in practice. There may also be other shortcomings that we have yet to uncover and simply because governance, especially in small family firms, is an understudied arena, does not mean that decision makers in family firms do not know what they are doing. After all, family firms have special strengths (but also weaknesses) and resources that can be used. Our literature review will elaborate on this.

What is unique to the family business setting is what Habbershon, Williams & MacMillan (2003) call familialness. This is a continuum that a family firm can be placed on and can exist to an extent where it poses an advantage or disadvantage to the firm. In case it turns into such a disadvantage, structures could be put in place in order for the firm to retain its competitiveness. This is where corporate governance comes into play. Why this is important became obvious at the beginning of this century, when cases of managerial fraud, misconduct and negligence led to corporate meltdowns and accompanying losses of shareholders (Baker & Anderson, 2010). Such shareholders of the firm wonder who signs responsible for securing and promoting their investment. However, shareholders do not have to be a large, diverse mass; they can also just be the few owners of a firm - in many cases a family firm. But could it be that family firms are reluctant to implement new (governance) structures as they may lead to confrontations inside the family? What is the potential role of governance in small family businesses?

Our work is essentially structured as follows. After this introductory section the concrete problem covered will be stated (1.1) and the purpose be defined (1.2). We will then take a close look at the construction of our research questions. In part 2, a review of the existing literature regarding family businesses and governance just as where those arenas meet will follow. Part 3 is concerned with the methodology of our work, while part 4 sees us working with the data gathered in the field and conducting an empirical analysis. In part 5 our research questions will be answered and our findings will be discussed, while part 6 concludes this work.

1.1 Problem

Neubauer & Lank (1998) make it a point that corporate governance in family firms has been a largely neglected area of research. Although 18 years have passed since their statement and Fahed-Sreih (2008) adds that this domain has gained more attention in recent years prior to her publication, the statement is still valid. Research on governance in family firms continues to be underdeveloped and the various dimensions governance has to offer in family firms remain understudied (Berrone, Cruz & Gómez-Mejía, 2012). Additionally, Steier, Chrisman & Chua (2015) recently pointed out that the heterogeneity of family business governance just as how the various structures of it evolve does not receive a lot of attention in literature. However, simply pointing out those shortcomings in theory shows how the topic is gaining in interest and attention. Our literature review will underline this trend, since most sources on this matter have been published in the previous decade.

The term Corporate Governance is commonly associated with firms that are publicly owned and traded and that are therefore lawfully required to disclose certain aspects of their business (e.g. 3 In addition, our choice of methodology (section 3) does not allow for such actions.
Clarke, 2004; Eng & Mak, 2003). One would think that they are also of critical mass to sustain an apparatus of corporate structures. Due to their small individual contribution to the overall economy, smaller businesses seem to often be disregarded in literature when it comes to governance. However, when looking at the sum of the economic contribution that those businesses make, ignoring them and their needs would be naïve. Although governance and corporate governance in itself have been extensively studied and also larger family businesses have received a vast coverage⁴, this is not the case for smaller family firms and shall be further outlined in our literature review. With our work, we aim at starting to fill the gap that yet fails to explain what is happening in regards to governance in small family firms.⁵

There is little literature on governance in small firms and even less on small family firms (Goel et al., 2014). As well, a clear definition of governance for both types of firms is hard to come by.⁶ It is not, as shown by Neubauer & Lank (1998), that the corporate governance tasks encompassing controlling, directing and accounting for have not existed in family businesses, but rather that there has not been a system to comprehensively recognize them as explicit corporate governance roles. So although small family firms may have used practices to govern, they are not known to theory as corporate governance measures and therefore hard to grasp. Upon reaching a certain size when the family has grown quite distant from the firm, such formally recognized mechanisms can become essential (Neubauer & Lank, 1998). As stated in our background section, we intend to review whether or not such recognized mechanisms have relevance for small family firms.

1.2 Purpose

We want to openly explore the field of governance in small family firms and its implementation and hence also reduce the gap in theory regarding this. In addition, we aim at obtaining answers as to whether or not known governance concepts are applicable to small family firms.

This involves going into the field to provide first-hand insights into understanding what small family firms do in regards to implementing governance structures as literature suggests them,⁷ what hinders them and what potential threats and benefits come along with implementing those or choosing not to do so. In addition, we aim at further exploring and defining the governance structures that are visible in small family firms but might not be classified as typical corporate governance in literature. With our work, we hope to enable small family firms to benchmark themselves in comparison to other firms to see how those address the present issues of governance.

1.3 Constructing Our Research Question(s)

After presenting what led us towards this line of work and discussing our research ideas, it is time to present our main and sub-research questions. Having a clearly defined research question is stressed by Saunders, Lewis & Thornhill (2009), who say that one of the main determinants leading to successful research is having clear conclusions made from the collected data. This would not be possible without having clearly stated research questions, as this also helps to avoid not generating new insights (Saunders et al., 2009). Before presenting the questions, we would like to elaborate on some criticism regarding a practice we have participated in: gap-spotting.

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⁴ Goel et al. (2014) give an extensive overview of the studies conducted regarding governance in family firms.
⁵ Section 1.3.1 is concerned with critique towards gap-spotting.
⁶ Please see our sections 2.2.1 and 2.2.2 for our elaborations on what defines small.
⁷ Hence, what types of governance instruments are in use in non-family firms (or even large family firms) and see if they can potentially be applied to family firms of any size – in our case small family firms.
1.3.1 Gap-Spotting

In the previous sections we explain that it is natural that there are still understudied areas in the field of family business, where the field of family business and governance meet and especially regarding governance in small family firms. We use this as one justification for our research and, in line with other literature, call these understudied areas gaps. Spotting for those, although being the most common way of coming up with research questions, receives criticism (Sandberg & Alvesson, 2011).\(^8\) The authors criticize explicitly that gap-spotting does not actively question the assumptions that are the basis for existing theory. Rather, gap-spotting is more likely to strengthen or slightly change already powerful theories (Alvesson & Sandberg, 2013; Sandberg & Alvesson, 2011). As an alternative, Sandberg & Alvesson (2011) present problematization as a concept actually aimed at challenging what is underlying present theory. However, in our case, theory is largely missing. By problematizing, opportunities arise regarding crucial and more radical insights, so the authors. Nonetheless, they restrict that not all studies profit from problematization in regards to constructing research questions. Nevertheless, problematization was a key instrument in reaching novel points of departure regarding the development of theory. Of the three modes of gap-spotting Sandberg & Alvesson (2011) identify, we do not try to conceal that we are in large parts relying on neglect spotting - the commonly found method of gap-spotting. It encompasses three dimensions: overlooked areas, under-researched areas and lack of empirical support (Hällgren, 2012). We recognize the criticism that comes along with neglect spotting, but believe that by formulating our research questions more openly, we remain sensitive to broader and challenging results. We are also of the belief that we do not simply strengthen or slightly change existing theories with a small gap identified,\(^9\) but rather try to develop a field that has the potential to set the ground for interesting theories.

Relying completely on problematization and following through with it would be difficult (Sandberg & Alvesson, 2011), so is coming up with and developing novel ideas when time is restricted (Alvesson & Sandberg, 2013).

1.3.2 Main Research Question

After introducing our readers to the topic being studied and having formulated the problem present and the precise purpose of our work, we are introducing our main research question:

1. What is governance characterized by in small family firms?

This main research question is the one in focus in our work and of most importance. It stands for the open mind we adopt in our work. From this research question, two sub-research questions evolve for us and show the directions our research can take. The order of our research questions also stands for their relevance.

1.3.3 Sub-Research Questions & Clarifications

Our main research question above is supplemented by two sub-research questions:

2. Why do small family firms (try to) implement governance structures or choose not to do so?

3. How do small family firms implement governance structures that are appropriate for them?

With the main and sub-research questions above we are also responding to multiple calls in literature on future research by Astrachan (2010), Berrone et al. (2012), Fahed-Sreih (2008), Neubauer & Lank (1998) and Steier et al. (2015), as introduced earlier in this work. Not introduced so far were Gersick & Feliu (2014), who recently called attention to the fact that literature on the implementation of governance instruments in family-owned and -controlled firms remains to be developed. They especially point at the integration of monetary, law, business and family variables and how those influence governance and continuity in family

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\(^8\) As a basis for this, the authors use their sample of 52 articles mainly originating in North America and the UK.

\(^9\) After all, Alvesson & Sandberg (2013) agree that gap-spotting differs in size and scope.
firms. Additionally, Brunninge, Nordqvist & Wiklund (2007) point out that adequate attention has not been paid to the interaction of distinct governance instruments in SMEs. They have only started to address this topic in their paper and believe that using different governance instruments could counteract negative ownership consequences.

Although our sub-research questions might, at first glance, imply that there are appropriate governance instruments that help every small family firm, a possible and acceptable answer could be that the firm is better off without implementing (further) governance structures. Appropriate, part of our second sub-research question, pays tribute to the uniqueness of every small family firm. We do not want the formulation of our research questions to rule out that firms might want to keep what they already have in place. We will keep an open mind to this. Alternatively, examining how firms implemented structures in the past that they are content with will also be rewarding for our research. Overall, working with the formulations in our research questions the way we did opens up the floor in different directions. We would like to make clear that when speaking about governance in a firm, we mean the governance structures, since this is simply the use or assembly of elements under the umbrella governance. Governance is just the overall term, while governance structures are what is eventually found in the individual firm, meaning that we can use these terms almost interchangeably. What literature understands as governance is examined in the following section. In addition, a definition of what a small family firm is follows below in part 2.2.
2 Literature Review

Literature suggests there are multiple governance instruments for family firms to use. In the following literature review, the state of research on those will be presented. This review broadly consists of three parts. We begin with section 2.1 in which a general introduction to corporate governance is given to understand what the basic concepts are and where the origins can be found for our further elaborations. Part 2.2 constructs a framework on (structures in) family businesses, giving an understanding to the reader of what a small family firm is. Part 2.3 merges those two arenas into governance in family businesses, showing what kind of governance structures already exist in theory about family firms in general. Throughout this literature review we will pause and motivate why certain parts can be found in this section. Ultimately, an informed view will have formed on what is previously known about family firms, governance in them and governance in general. This then serves as a point of departure to explore in the field what the characteristics of governance in small family firms are and will enable us to draw comparisons between the specific field of governance in small family firms and the more general, previously well-studied governance field.

2.1 Corporate Governance

There are many definitions in literature of what exactly Corporate Governance is. What becomes clear though is that it has become an ever-increasing topic in scientific literature over the past two decades, especially over the last 10 years (Filatotchev & Boyd, 2009). As pointed out by Gabrielsson & Huse (2004), theory has mainly focused on large and listed companies that are also legally obliged to disclose certain information.

In a report by Cadbury (1992) it is emphasized that corporate governance is a system by which control and direction of the company is navigated. According to Brenes, Madrigal & Requena (2011), corporate governance is the management structure a company has in place to align ownership management and business management and consists of three key elements: the shareholder assembly, the top management team and the board of directors. Pointing at a different focus, Shleifer & Vishny (1997) say that corporate governance is an instrument for the financial suppliers to corporations that want to assure themselves of getting their investment back. To Brown, Beekes & Verhoeven (2011), corporate governance is simply the management of a corporation. This might seem very obvious and is definition-wise not the most elaborate one, but it does remind us that corporate governance has to do with corporations and their activities involving proper management. Pieper (2003) reviews literature on corporate governance and finds that the lack of a clear-cut definition is in parts due to national differences regarding legal systems, company law and investor protection.

Corporate governance has been studied extensively in previous times. This is mostly due to the corporate transgression that has occurred over the last couple of decades, reaching from the Enron, Tyco and Worldcon scandals to the 2008 financial crisis (Aguilera, Desender, Bednar & Lee, 2015; Clarke, 2004; Tricker, 2015). Even though gaining a lot of attention, the focus has remained on a narrow field in corporate governance, mainly looked at through the dominant views of agency theory and stewardship theory (Daily, Dalton & Cannella, 2003; Dalton, Daily, Certo & Roengpitya, 2003; Donaldson, 2012; Filatotchev & Boyd, 2009; Lubatkin, 2007; Shleifer & Vishny 1997). Also, most of the research has focused on the relation between performance and corporate governance. However, there has recently been encouragement for and an increase in studies that aim at further exploring the boundaries of corporate governance and the connections between the different governance mechanisms in play (Aguilera et al., 2015; Brunninge et al., 2007; Jain & Jamali, 2015).

Governance mechanisms found in large corporations can usually be characterized as internally and/or externally focused. For example, while internal corporate governance focuses on the monitoring of the board of directors, external corporate governance monitors stakeholder activities. Naturally, both influence and complement each other. The previously mentioned board of directors is the main legal authority to protect the interests of shareholders. The board
also influences whether the company employs earnings management\(^\text{10}\) (Xie, Davidson, & DaDalt, 2003). Today, most boards have an external director in place to keep the interests of the shareholders in place and to avoid any conflict of interest (Byrd & Hickman, 1992). However, there has not been any concrete proof that having external directors on the board does indeed improve the efficiency of the company's corporate governance (Bhagat & Black, 1999).

According to Doidge, Karolyi & Stulz (2007), companies' having different governance structures arises from differing cultural and institutional backgrounds that firms are situated in. When it comes to geographic factors, there seem to be two types of arrangements that monitor the corporate performance and management of a company. Boards tend to be arranged as either unitary or as two-tiered boards. In countries like the United States, Italy and England, it is more common to find the unitary arrangement in which all directors are responsible for both managing the company and monitoring the activities of the CEO. On the other hand, countries like Germany, the Netherlands and Austria use the two-tier system (Carrasco, 2005), in which the tasks are split among the board of managers (sometimes also named executive board) and the supervisory board. In those systems, it is expected of the CEO to report to both of them (Carrasco, 2005). Some countries require that publicly listed companies have a dual board in place, as is the case with Germany. Again, this means that they need a board of managers and a supervisory board (Carrasco, 2005).

Governance systems are not static, but evolve with the company changing (in size). As Cadbury (2000) points out, a more formal organizational pattern becomes necessary if confusion, overlap and the danger of overlooking affairs because of cracks in the structure are to be avoided while the company is experiencing growth and decision-making might shift. However, we should keep in mind that according to Gabrielsson & Huse (2004), there is no corporate governance method that is universally beneficial to every firm and social and institutional factors play a significant influence. Of course, a governance structure cannot be forced onto an organization - especially not onto a family firm, which we have also presented in our background section when referring to Goel et al. (2014) arguing that due to family firm’s heterogeneity, governance issues vary strongly among them. Before further examining governance in family firms though, we intend to show what exactly constitutes family businesses.

### 2.2 Family Businesses & Small Family Businesses

We have now shown what is generally understood as corporate governance. As a next step (section 2.2.1) we are looking at what exactly constitutes a family firm (in our eyes). Besides defining it we are also taking up the issue of firm size and its relevance in our study (2.2.2 & 2.2.3). In section 2.2.4 we then present ways to analyze a family firm, which will help us to identify important areas in which governance might play a role. The remainder of this section (2.2.5 - 2.2.7) is then concerned with conflicts, socioemotional wealth and succession, all of which are unique in the family business setting and can be used to draw connections to governance.

In our background we have already pointed out the worldwide importance of family-controlled firms. However, we do not want to remain short of some relevant numbers regarding the country that will later be in focus: Sweden; a country in which roughly 79% of all private firms are family-controlled (Family Firm Institute, 2016). Also, 59% of family firms in Sweden have shown growth over the previous 12 months leading up to a recent study (PwC, 2014). Subsequently, we will define what exactly a family firm is, as literature suggests and in our terms.

\(^{10}\) According to Healy & Wahlen (1999), earnings management occurs when managers alter financial reports (in a legal way) to either misguide some stakeholders about how the firm performs or to affect contractual outcomes that rely on accounting numerics.
2.2.1 Defining the Family Business

We employ the terms *Family Firm* and *Family Business* interchangeably. One can simplify that it is the factor *family* distinguishing family from non-family firms, which would be correct, but there is more to it. Multiple definitions of what a family firm/business is and what its distinguishing factors are exist in literature. There seems to be only a general agreement that defining a family business is a task in itself. Almost every scholar or researcher that looks at family businesses presents their own definition and they tend to inhibit a variety of facets depending on how the business is looked at (Chrisman, Chua, Pearson & Barnett, 2012; Chua, Chrisman & Sharma, 1999). Poza & Daugherty (2014) use a broad definition as a point of departure and state that family businesses constitute the range of companies in which an entrepreneur or next-generation CEO and one or more members of the family have a strategic influence on the firm. Litz (1995) proposes that a firm can be considered a family business when its ownership and management are to be found within a family unit and when its members aim at maintaining and/or increasing family-based relatedness inside the organization. To Fahed-Sreih (2008) it is any business that is influenced or controlled by a single family, while intending for the business to stay in the family. Giving a recent overview of definitions, Sharma (2004) finds that most seem to revolve around the importance of family when it comes to the determination of vision & control mechanisms just as the creation of unique resources and capabilities in a firm. In their work dating back to 1996, Sharma, Chrisman & Chua found 34 different definitions of a family business with various dimensions in focus. They doubt that due to the diversity of family firms, a generally acceptable definition will emerge. Therefore, researchers are to explicitly indicate the definition used in their studies, since this will facilitate the reconciliation of other researchers and enable them to build on each other’s findings (Sharma et al., 1996). Additionally, researchers can then decide if the findings can be applied to their own situation or not.

In light of this and for the purposes of our study, we are defining the following as a family business: A business owned (almost) completely by a family unit\(^\text{11}\) with one or more additional members of the family having a strategic influence on the firm. Since smaller family firms are in the center of our interest, we also look at what the European Commission defines as small companies. Those encompass firms with less than 50 employees, a turnover smaller/equal to € 10 m or a balance sheet total smaller/equal to € 10 m (European Commission, 2016). However, *small* is a relative term and a European definition is in itself a negotiated average, since member countries and their economies differ in scale and size. We believe that this European definition encompasses companies that should not be labeled small and will therefore use companies in our sample of even smaller size than are stated above. For those, the European Commission offers the term micro, which encompasses firms with less than 10 employees, a turnover smaller/equal to € 2 m or a balance sheet total smaller/equal to € 2 m (European Commission, 2016). We will use what the European Commission describes as micro to define our small family firms, although we allow ourselves some flexibility, as the real life is not a negotiated average. Hence, slightly more turnover or employees than in the above definition would be acceptable for us in our sample firms. Why such definitions as the ones above are especially important in the country of our focus can be seen in the section below.

2.2.2 Small Business Relevance

Referring back to data from 2002, a staggering number of more than 99% of firms in Sweden can be defined as SMEs (Small- and Medium-Sized Enterprises), adding 57% of the overall value added to the economy (OECD, 2002). However, the definition of SMEs used by the OECD is still quite generous with a maximum amount of 250 employees. Nevertheless, it is still 94% of companies in Sweden that only have up to nine employees (OECD, 2002) and therefore the large majority of firms that correspond with one criteria of the above definition by the European Commission regarding micro companies. The numbers above stress what Heshmati (2001)\(^\text{12}\) finds on small businesses. He stresses that those firms contribute significantly to the success of

\(^{11}\) Such a unit can be a sole person or multiple people in the close and/or distant family. We employ the term *owned (almost) completely* because this is in line with us looking at small firms, in which this is the norm.

\(^{12}\) To him, a small firm has between one and 100 employees.
an economy by generating jobs, bringing in new ideas and promoting entrepreneurial actions (Heshmati, 2001). Nevertheless, it is evidence on small family firms that is of interest in our work, not “normal” small businesses.

2.2.3 Small Family Business Definition Issues

Although we have only shown two definitions of what others define as a small company, there are multiple other definitions for those, just as there are multiple definitions for what a family firm is and what exactly governance is. Since small family firms are in focus in this work, we would like to elaborate on a problem that we find ourselves confronted with especially when it comes to defining those. As presented above, the European Commission uses economic data to define company size. But is it economic figures alone that define what a small family firm is? Could it not also be connected to the amount of family members that have an influence on the firm that should play a defining factor? It seems like agreeing on a definition is a rather difficult task, as we do not just have to define what a small firm or what a family firm is, but rather the combination of both. We suspect that there could be a misunderstanding with the definition of what exactly small family firms are. When looking at literature, the common definitions of the size of family firms are always associated with the number of employees, the revenue of a firm, its value, or other economic figures. One common definition used (e.g. Lussier & Sonfield, 2015; Wiklund & Shepherd, 2005) is the one by the European Commission (2016) that we also relied on above. However, we believe that those numbers are not the only numerics relevant when looking at small family businesses that are usually (close to) 100% family-owned, which are also the companies we intend to sample. Economically, a firm could be a large business, yet family-wise it could be controlled by a single family unit, resulting in lean family governance structures. This brings up the issue that perhaps our understanding could be flawed of what exactly a small family business is from the perspective of governance.

Problems with definitions, not just in the particular case presented above, come along with problems for us as researchers. If we, with every source we cite, give a definition of what the original author(s) use as their basis, our work would quickly become blurred. Therefore, even though we believe to have clearly stated what terms such as small firm or family firm, among others, mean to us or are of most value to our research, we cannot generally avoid citing others that have differing definitions. However, when the definitions derive too strongly from each other, we will refrain from using those sources for our purposes.

2.2.4 Analyzing the Family Business

Early efforts aimed at better understanding family firms were made by Tagiuri & Davis in 1982 in their Three Circle Model of Family Business,13 as seen in an adaptation in Figure 1 below. It recognizes that the family firm is actually made up of the three overlapping subsystems Family, Ownership, and Business. Any individual that is active in a family business, be it an owner or an employee, can be placed in one of the circles or an overlapping part of those. It should be noted that for those authors, a firm is considered to be family-controlled when two or more individuals are at the same time members of the owning family, owners and managers.

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13 Although their ideas referred to here were first published in 1982, the source available to us stems from a reprint in 1996, which is being used for citation purposes.
In their paper, Tagiuri & Davis (1996) put an emphasis on family firms having bivalent attributes that make them unique and pose as sources for advantages and disadvantages to owning families and employees, whether they are part of the family or not. Those attributes were a direct consequence of the three overlapping circles, so the authors. Among the most important of the bivalent attributes are to be found simultaneous roles of family members (e.g. as owners, relatives and managers), emotional involvement & confusion and a shared identity (Tagiuri & Davis, 1996). Again, those features of the business are representative for their strengths and weaknesses at the same time.

Gersick, Davis, Hampton & Lansberg (1997) assess that the Three Circle Model has been widely accepted because of its theoretical elegance and because it can be applied immediately. By breaking down the complex interactions within the firm one can better understand where interpersonal conflicts are coming from and the role dilemmas members of the organization might find themselves in. However, they also state that it only represented a snapshot of the current situation in a family business. Moving forward, by adding in the passage of time, Gersick et al. (1997) made the next important contribution to the analysis of family businesses. Their Three Dimensional Development Model can be viewed in Figure 2 below.
This model picks up where the Three Circle Model left off and adds a separate developmental dimension for each circle, resulting in a Business, Ownership and Family Axis with three stages for the two former and four stages for the latter. Any movement along the axes is accompanied by (extensive) consequences. While the progressions along the axes are independent on each, they also influence each other, creating a three-dimensional space and resulting in the family firm taking up a certain character depending on its own progression (Gersick et al., 1997).

In the eyes of Pieper & Klein (2007), family business research can so far be split up into three stages. In stage one, the early years of research with a closed-system perspective were in focus. This period was still dominated by dual- and triple-system thinking as performed by Tagiuri & Davis (1996). The dynamic perspective taken on above by Gersick et al. (1997) stands representative for stage two of family business research. In this stage, systems and process relevance played the decisive role. Stage three, as the most recent one, has then introduced more complex models with specific research foci that are also characterized by an open-systems perspective (Pieper & Klein, 2007). Regarding the types of family firms we intend to research, the two models presented above for analyzing family firms are sufficient. In addition, by avoiding very specific models we are able to remain open to a diverse sample of companies in our study. Nevertheless, we would like to point to a fairly recent addition by Klein (2000), who introduces a four-dimensional family business model (also known as the Klein Model) that focuses besides family, business and ownership also on leadership. According to Fahed-Sreih (2008), distinguishing between business and leadership allows better accuracy since those two elements have their own, separate life cycles. Also, using the term leadership instead of management was more suitable, especially when looking at smaller and younger firms.

The research and models presented above will help us better analyze and understand the family firms examined later on. They can also help us in identifying important areas in which governance may play a role. Although we will not use them explicitly in this work to analyze every single one of our sample firms, we were guided by them and used them as concrete tools to sort our thoughts. Another topic of interest in any firm is (potential) conflict. Since such conflict tends to take up unique forms in family businesses, the next section is dedicated to it.

2.2.5 Conflicts in Family Businesses

Regarding conflicts in family businesses, Kellermanns & Eddleston (2004) suggest that although family firms are often hit by substantial conflict threatening the firm, not all conflicts must result in negative consequences for them. So although matters such as sibling rivalry, marital problems, children’s desire to be different than their parents and the dispersion of ownership of the business among family members are valid centers of conflict that can bring about negative consequences, Kellermanns & Eddleston (2004) call attention to the fact that conflict in family firms may have a positive influence on their performance. For that, we shall generally look at what kinds of conflict there are to start with.

Literature suggests that there are three distinctive types, namely relationship conflict, cognitive conflict and process conflict (McKee, Madden, Kellermanns & Eddleston, 2014). One should note that those conflicts may occur independently, simultaneously or that one conflict may turn into another. While it is relatively clear what relationship conflicts are about, the latter two are concerned with actual work issues. Effects such as dislike, frustration, irritation and anger cause conflicts based on relationships (Jehn & Mannix, 2001). These factors create a breeding ground for distrust, rivalry and animosity (McKee et al., 2014). These factors also have a negative impact on the family, the business and the intra-family relationships. Process conflicts are about the assignment of tasks within the business and cognitive conflicts have dissensions about the pursuit of certain strategies and goals at their center (McKee et al., 2014). The authors find that while relationship conflict is usually associated with decreased performance, moderate process and task conflicts are the ones that can have a positive effect on performance. A concept playing a role here is what is known as creative abrasion. Creative businesses do show teamwork and collaboration, but also argument, debate and friction. Such friction is good since it is a lively source of energy. Creative abrasion stands for this. It stands for getting different approaches to grate against each other in an ultimately productive process (Morris, Kuratko & Covin, 2011) and therefore explains why cognitive conflicts can be beneficial to the firm. One could also argue
that firms should find a way to avoid conflict, but McKee et al. (2014) point out that this may not be a realistic alternative for businesses persisting across generations, since this would not address the underlying issue. Instead, an escalation could likely be observed and lead to the demolition of the firm. McKee et al. (2014) go further into detail regarding how conflicts are managed in family firms, which we believe is valuable to understand. They say that there are five types of conflict management strategies: avoiding, contending, compromising, collaboration and third party intervention.

With **avoiding** McKee et al. (2014) mean that family members ignore or do not tackle the source of conflict. Avoidance in family firms can cause disconnection and grudges in the family, but could also escalate to a more serious level. This is usually associated with high rivalry among siblings, low mutual trust and low family satisfaction. However, there are also benefits to conflict avoidance. An example is team performance, which increases when minor issues or inconsistencies are not discussed, as they would derail the task and escalate into a more serious form of conflict.

With **contending** McKee et al. (2014) refer to competing against each other in the firm. This happens when an individual forces their way without concern for other members of the family. This can cause tension and impact the family relationships in a negative way. This selfish act may cause a decrease in the diversity of ideas and strategic choices. It can also create mistrust and anger and can be responsible for hindering firm performance.

With **compromising** McKee et al. (2014) refer to the attempt of finding a solution that suits everybody in one way. This may create a temporary fix but cannot guarantee a long-term solution to the conflict. Even though compromises can create some kind of benefit in the operation of the firm, it can also create a bottleneck problem where no new ideas are discussed. Compromises can benefit the firm in the short term but will likely not improve the performance of a firm in the long run.

With **collaboration** McKee et al. (2014) refer to working together with other members of the family and sharing ideas that create solutions to problems the firm is facing. Collaboration can create a cooperative environment in family firms, which can in turn increase cooperation and commitment between the parties. Collaboration is seen as one of the best conflict management strategies as it can focus on the short and long term goals of a firm.

Finally, **third party intervention**, as McKee et al. (2014) state, involves bringing in somebody who is not affected by the conflict and who can help mediate or resolve it. This conflict management strategy differs from all previously mentioned, as it does not necessarily need the direct participation of the people who are involved in the conflict. Third parties can introduce a new perspective to the problem at hand. The benefit of external help is that rather than finding a temporary fix, they try to resolve the conflict altogether. This can also improve the communication and interaction between family members.

Besides the centers of conflict and the ways of managing them presented above, there is one topic that is especially delicate in family firms: **succession**. Before elaborating on it, we decided to present two concepts that give an idea why conflicts and succession in family firms are such delicate topics.

### 2.2.6 Socioemotional Wealth

**Socioemotional Wealth (SEW)** is a relatively new topic that has been only around for less than a decade in the family firm literature. Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson & Moyano-Fuentes (2007) first introduced it in the context of Spanish olive oil mills. Socioemotional wealth is built on the pre-existing behavioral agency theory (Berrone, Cruz & Gómez-Mejía, 2012). It is centered around the notion of family firms’ relationship between their economic plans and their family-related (non-financial) decision-making (Gómez-Mejía et al., 2007). Family firms aim at achieving financial, but also non-economic goals (Chrisman, Chua & Litz, 2003). Literature on SEW in family firms assumes that ownership was enough reason for family firms to perceive and create SEW (Gómez-Mejía et al. 2007; Gómez-Mejía, Makri & Kintana, 2010). However, in applying the concept of SEW, Zellweger, Kellermanns, Chrisman & Chua (2012) found that it rather has its strongest connection to the aim of maintaining transgenerational control. This control was directly tied to the vision of the firm and the family’s intention in creating socioemotional value, which could be rooted in reputation or in the intent
of creating a dynasty, among other elements (Berrone et al., 2012; Zellweger et al. 2012). Recently, Berrone et al. (2012) further explored the underlying dimensions of SEW. In doing so, they propose five dimensions that create the family owners’ SEW. These five dimensions are: (1) Family control and influence, (2) Family members’ identification with the firm, (3) Binding social ties, (4) Emotional attachment and (5) Renewal of family bonds to the firm through dynastic succession (Berrone et al., 2012). These five dimensions could aid in our understanding and interpretation of what we find in our sample companies.

The first dimension refers to the owner taking on multiple roles in the business in order to better keep control over the company. This means that they have control over strategic decisions in the firm (Berrone et al., 2012).

The second dimension refers to the family having a close identification with the firm. The public awareness the company attracts is of high importance especially if the company has the same name as the family, which is carried over to the internal and external dimensions of the firm (Berrone et al., 2012). Due to the sensitivity of family firms regarding public condemnation (which could have devastating effects for the company), they display a higher level of CSR and community citizenship, making them take extra care of public perception (Berrone et al., 2012).

The third dimension refers to family firms’ social relationships. Berrone et al. (2012) state that firms’ bonds are not exclusively family-related, but can also extend to suppliers, vendors and employees. Family firms hence also develop a strong social bond with the community (Berrone et al., 2012).

The fourth dimension is concerned with the emotional part of SEW. According to Berrone et al. (2012), emotions play an intricate role and are present in every firm, but they incorporate a special meaning in family firms. This was due to family firm’s common longevity, mutual experiences of members and grown relationships (Berrone et al., 2012). These emotions can have a positive impact (warmth, love, consolation or happiness), but could also lead to a negative impact (anger, fear, anxiety, sadness, disappointment or depression). Emotions are not static and can vary on a daily basis, emerging and evolving from situations of different severity (succession, divorce, illness, family or business loss etc.). Since the boundaries between the family and the firm become blurry, emotions seep through the organization and influence the decision making process (Berrone et al., 2012).

The fifth dimension deals with transgenerational sustainability. Zellweger et al. (2012) mention that transgenerational sustainability is one of the dominant dimensions of SEW. The family does not see the company as an asset that can be sold easily since it has a symbolic value (heritage & tradition) to them (Berrone et al., 2012).

This fifth dimension refers to a pertinent topic in family businesses: succession. It could be assumed that family firms have a high interest in passing on the firm to the next generation. In the section below, we give an overview of the subject matter.

### 2.2.7 Succession in Family Businesses

When looking at European statistics it becomes apparent that close to 50% of all business start-ups cease to exist after a span of five years (Malinen, 2001). It should therefore not surprise that companies surviving over generations are rather the exception to the rule. Nevertheless, when they do, the question of generational transfer becomes a vital matter. According to a recent study conducted by PwC (2014), 70% of Swedish family firms do not have a documented succession plan for the key positions in their firm. It is not just due to this that we expect to come across transition issues when going into the field. Malinen (2001) points out that small business succession is currently an important topic in science just as in practice in the developed countries of the world. He identifies that it is mostly the open discussion happening among the extended family and the time-consuming planning of succession that are the biggest and most important problems in need of overcoming in the process.

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14 It should be noted that changes in the legal status of a firm are not represented in the statistics used.

15 For clarification purposes, with succession we refer to the transfer of ownership and management in a family firm.
Succession is a vastly studied field and when looking at family businesses, most literature tends to focus on management succession. However, there is also ownership succession, which does not receive nearly as much attention (Baù, Hellerstedt, Nordqvist & Wennberg, 2013). If we think back to section 2.2.4, we will remember the Three Dimensional Development Model introduced by Gersick et al. (1997). There, in terms of ownership succession, we are maneuvering somewhere along having a controlling owner, a sibling partnership or a cousin consortium (Gersick et al., 1997).

Researchers overall agree that succession is one of the most important and difficult processes a family firm can and will go through (Handler, 1994; Sharma, Chrisman & Chua, 2012), with the two main roles succession planning takes on in family firms being family harmony and continuity across generations (Gilding, Gregory & Cosson, 2015). Looking at family firm succession literature in detail, Baù et al. (2013) find a pattern that either small samples or illustrative cases are being used. Nevertheless, they indicate that succession is a complex matter happening at various levels, having consequences on an individual level, between persons and for the organization as a whole (Baù et al., 2013). It is where the transitional process of the family is confronted with the culture of the organization, which is why Baù et al. (2013) help practitioners in identifying ten succession issues one should be aware of when working with it: culture, education, communication, discussion, willingness, commitment, planning, timing, agreement and involvement. As these issues become relevant when analyzing family firms and when working with them towards a successful generational transition, we will keep them in the back of our minds when going into the field.

Unlike in large public companies, succession in small family firms does not have any consensus on when exactly it should take place (Fox, Nilakant, & Hamilton, 1996). As succession in (small) family firms is a rare event that usually takes place only once per generation, it becomes even more interesting. As such, the transition can raise anxiety in the company (Fox et al., 1996; Gersick, Lansberg, Desjardins, & Dunn, 1999), giving succession the potential to have a disruptive effect on the business (Fox et al., 1996). In their work, De Massis, Chua & Chrisman (2008) present a model, based on a literature review, which presents the factors preventing intra-family succession. They found three direct causes preventing such succession inside the family: (1) all potential successors inside the family decline the future management leadership; (2) rejection of all potential family successors by the dominant coalition; or (3) decision against family succession by the dominant coalition although willing and acceptable potential family successors exist.

The issues presented above under the headings of conflicts and succession in family firms, among many others, are the reason for why governance is essential in family businesses of any size. The state of research on this subject matter is presented in the next section of our literature review.

2.3 Governance in (Small) Family Businesses

As the last major part of this literature review, section 2.3 combines the elements of sections 2.1 and 2.2 in speaking about governance in (small) family businesses. We will present what is generally known and why this is in fact different from governance in non-family firms (2.3.1). In section 2.3.2 we will refer to the work of Nordqvist (2012) that shows the different arenas in which governance is conducted and as a result continue with showing specific governance elements that are most prominent in family firms of larger size (2.3.3 – 2.3.5). This will leave us prepared with literature’s most relevant theories and a sense of direction to enter the field.

As we have shown in section 2.1, definitions on corporate governance vary just as definitions on governance in family firms do - and no consensus has been found (Pieper, 2003). That is one thing the two concepts have in common. Nevertheless, we will now dig deeper into the subject matter and show why governance in family firms differs from governance in “ordinary” firms. After all, Pieper (2003) also emphasizes that models of governance intentionally sought out for large and public corporations characterized by dispersed ownership cannot simply be applied to family businesses that are often heterogeneously configured and in which family system adds
intricacy. In the same manner, we believe that agency theory or stewardship theory, theories commonly rooted in corporate governance literature and used to look at governance in larger corporations, are not of relevance in our setting. In small family firms, owners and managers are usually identical, making those theories obsolete. We therefore free ourselves from them.

The purpose of governance in family firms is to steer the whole business in a direction where desired outcomes are expected, outcomes that often go further than financial results (Sorenson, 2013). Section 2.2.6 on socioemotional wealth should be thought of here. Therefore, family businesses exhibit governance structures that go beyond what literature recognizes as such, and results for the owning family that are often not measured (or measurable). This is a problem, since current research on governance is primarily concerned with traditional concepts and profitability as the central performance measurements (Sorenson, 2013). Effectively, as Sorenson (2013) argues, this results in researchers looking at governance in family firms through the lens of governance structures and measures for results that are commonly used for non-family firms.

2.3.1 Why it is Different

The aforementioned work of Tagiuri & Davis (1996) regarding the analysis of family firms clearly shows the lack of separation of family, business and ownership. It is this aspect, among many others, that first hints at governance in family businesses differing from mainstream governance. Gallo & Kenyon-Rouvinez (2005) argue that the complexity of addressing family, business and ownership issues at the same time likely explains why only a humble percentage of family firms worldwide have implemented formal governance structures. We continued by introducing the three-dimensional space Gersick et al. (1997) added, which contributes with the factor of time and exemplifies that governance issues in family firms are certainly not static. The degree of family involvement has also been covered, especially in relation to the work of Habbershon et al. (2003). This hints at differences in objectives and interests in family firms compared to their non-family counterparts.

Bennedsen, Pérez-González & Wolfenzon (2010) point out that family firms are unique in that their governance is to a large extent determined by the governance of the family that stands behind the firm, finally leading us to an important differentiation between corporate governance and family governance. Corporate governance has been introduced in section 2.1, but what exactly is family governance? Gersick & Feliu (2014) explain that families owning businesses have organizational work ahead of them as families. How they do this in an efficient and effective way has straightforward consequences regarding business operations and the preservation of family prosperity. This is family governance. Brenes et al. (2011) find that this family governance seems of higher relevance to larger families in which larger amounts of family members do not take an active part in the business. On the other hand, smaller families might find family governance redundant (Brenes et al., 2011). Again, this is not a unique view, as we already stated in our background that governance issues vary strongly among family firms, as they are extremely heterogeneous (Goel et al., 2014).

In their Ghanaian study, Sarbah & Xiao (2015) give a good insight into why governance is often neglected in small family firms. They say that when the firm finds itself still in the initial founder(s) stage, only few family governance challenges would be apparent, since most decisions would still be made by the founder(s) themselves or by the family in unison. As time goes by, things change. With new generations and more family members entering the business, the mindset on the future of the firm changes and different ideas are brought in. It is then that a clear family governance structure would lead to discipline among the family members, the prevention of (potential) conflicts and continuity in the business (Sarbah & Xiao, 2015). This is important. Brenes, Madrigal & Molina-Navarro (2006) make it a point that succession and the control of equity are two main factors leading to problematic issues within the family firm. Their findings suggest that different guidelines need to be defined to anticipate conflict in family firms when it comes to their generational transition. Although Brenes et al. (2006) remain short of details how such guidelines should look like, they state that all of their sample companies had

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16 See the Three Dimensional Development Model by Gersick et al. (1997) as introduced in section 2.2.4.
negotiated control in advance with shares being evenly distributed among direct family members and had established instruments for family members that did not intend to remain shareholders or were affected by divorce, death and/or a lack of heirs. Brenes et al. (2011) take a similar line, but also state that transitional guidelines and processes need to be tailored to an individual company’s culture.

2.3.2 Strategic Arenas in Family Firms

In his article exploring strategy processes in family firms of small and medium size, Nordqvist (2012) takes on the strategy-as-practice lens to work out how those processes develop. Although not explicitly in focus in his work, corporate governance is mentioned as a strategic challenge. After all, what structures are in place or practices conducted in a firm regarding governance is a strategic decision, whether this happens consciously or unconsciously. Nordqvist (2012) makes it one of his research questions to find out at what place and time the actors involved in strategizing meet and act. Translating this for our purposes, he wants to find out what governance looks like in those firms. Referring to Mustakallio, Autio & Zahra (2002), Nordqvist (2012) argues that the role overlap emerging from family members occupying multiple positions in the firm that would be separated in non-family firms results in a structure of the business that complicates the conduct of strategy. Therefore, he introduces two concepts that aim at disentangling strategic processes, one of those being his so-called hybrid arenas, a concept we will now present and look out for when going into the field.

<table>
<thead>
<tr>
<th>Activities</th>
<th>Informal</th>
<th>Formal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family context</td>
<td>Ad-hoc meetings at home, family meetings (dinners, etc.), casual conversations</td>
<td>Family council, annual shareholders’ and other formal family meetings</td>
</tr>
<tr>
<td>Firm context</td>
<td>Ad-hoc meetings, casual conversations</td>
<td>Board, advisory board, TMT, shareholders’ meetings, other formal meetings</td>
</tr>
</tbody>
</table>

Figure 3: A Categorization of Strategic Arenas in Family Firms (Nordqvist, 2012)

Nordqvist (2012) finds that the hybrid arenas emerged after attempts to break out of daily routines and their accompanying constraints and although an increase in informality is a key characteristic of a hybrid arena, they typically feature formal elements. Nordqvist (2012) concludes that strategic work in companies switches between formal and informal arenas and the other way around – and so does governance. If we draw one conclusion from this work by Nordqvist (2012) away then it is that strategizing and governance are closely interrelated, although this is sometimes hidden.

For us, it is especially important to have a first classification of activities used to govern a family business and how those range from occurring in the family & firm context and being of a formal & informal kind – or a mixture of the aforementioned. Last but not least, it should be said that the elements found above were those Nordqvist (2012) found in his sample companies and is

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17 This is in reference to the actors in his sample of small- to medium-sized family firms.
18 Although it needs to be noted that his sample is rather small and we therefore dare to call his evidence anecdotal.
19 TMT stands for Top Management Team.
20 As an example for a hybrid arena, Nordqvist (2012) observed “strategy away-days” and a “sauna club” in his samples.
therefore not to be seen conclusive. Other activities may very well occur in other companies and may then be allocated their spot in the figure above.

The previous paragraphs have a concept of Nordqvist (2012) in focus that classifies multiple instruments of family firm governance into different arenas. Since some of these instruments are especially interesting for our work and since their characteristics and peculiarities are important to understand and require some clarity, we will introduce them in the following sub-sections and also take a look at elements that he does not mention.

2.3.3 The Board

We have introduced the characteristics and functions of boards as a powerful governance structure in companies in section 2.1 of this work. As Gallo & Kenyon-Rouvinez (2005) point out, firms often suffer from the lack of clarity regarding the roles and assignments of board and management. This lack of clarity was even greater in family businesses, since owners tend to often be members of the management team and board at the same time. In order to guarantee governance that is effective, Gallo & Kenyon-Rouvinez (2005) are of the opinion that clear distinctions need to be made between what members of the board and what executives do & are responsible for in the family business. In addition, they recommend board and management to be made up of people from diverse settings and to consider letting individuals external of the family bring in their expertise (Gallo & Kenyon-Rouvinez, 2005). Nordqvist et al. (2014) propose that when the ownership and management of a family firm sees a variety of family member and non-family member involvement, then governance instruments such as the board of directors or a top management team can become viable tools to the firm.

The board is a classic instrument concerned with the business side of the firm, and research on governance in family firms has shifted over time, from a focal point on individual governance instruments and mainly on the board, to an approach that regards governance systems all-inclusively (Pieper, 2003). The following instruments see about the family side of the family firm and can be part of such a system as a whole. Achieving, maintaining and increasing uniformity among members of the family and their connection to the firm are at the heart of family governance (Gallo & Kenyon-Rouvinez, 2005), and at the heart of the instruments hereafter.

2.3.4 Family Council

Lank & Ward (2002) believe that the family council is the most important governance body a business family can create and say that it is there to safeguard the sense of purpose such a business family has and the policies that aid in achieving this purpose. While arguing that in smaller families a family council may consist of the entire family, the topics to address do not differ when it comes to the composition of the council (Lank & Ward, 2002). The authors argue that it needs to balance the dimensions of the family as family, as employees and as owners. With this they position the family council right in the center of where the three circles of family, business and ownership overlap in the Three Circle Model of Family Business by Tagiuri & Davis (1996), which we presented in section 2.2.4.

Although opposing viewpoints surely exist, Lank & Ward (2002) see the family council as the center of any family governance system. They discuss that challenging questions a family governance system intends to answer are often addressed in (early) versions of what is oftentimes known as a family protocol, which the next sub-section is concerned with.

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21 Which is supposed to oversee the management.
2.3.5 Family Protocol & Intergenerational Contract

Lank & Ward (2002) see as key issues to be confronted by business families to define who family actually is, how voting is supposed to be executed, how family is supposed to be involved, how compensation should look like and how the family’s activities are to be funded. Of course, those are only some questions that family firms find themselves confronted with and the family protocol is only one way of dealing with them. It can also vary substantially among family firms in its size and scope. Gersick & Feliu (2014) find that such protocols have been viewed as a first class governance instrument mainly in Latin America and parts of Europe, while they have been viewed rather as an accessory in the United States. Either way, developing such a set of rules is done to straighten out how the family conducts its business (Van der Heyden, Blondel & Carlock, 2005). It can be called family firm law, charter, handbook or – as in our case – family protocol, and can also give details on the succession process, on appointing members of boards and on the ownership of shares, among others (Van der Heyden et al., 2005). While it is used for clear and consistent decision-making, it is also important that such a protocol is changeable and can be adapted when a certain agreed-upon share of family members ask for it.

Summarizing this last section, we picked three activities or instruments from the work of Nordqvist (2012) that are used to govern a family business, as we believe that it is important to have a pre-understanding about the facets governance can have. This was also our general intent with this literature review. It gives a broad overview of the most known concepts of governance (in non-family firms), family firms and small family firms and governance in (small) family firms. We find this to be an important step towards familiarizing ourselves with the structures that are known in literature. We have not given an in-depth account of these structures, but a broad one. This was done to achieve a rather open mind when going into the field and to not be biased by our previous knowledge.
3. Methodology

We have already disclosed some aspects of how our research is conducted in previous parts of this work. In the following sections, we are summing this up and will elaborate on the methodology of our work. We will take the textbook work of Saunders et al. (2009) as an origin to give an overview, since their research onion gives a vivid replication of an otherwise abstract methodological reality. Step by step, we will peel off the different layers of the onion, focusing on the most relevant ones, until we arrive at its center and will then be able to continue with presenting our fieldwork. It should be noted that Saunders et al. (2009) only give their own and very general overview of the methodological field, which is why their work is only used as a point of departure, as noted above.

The methodological field is a maze and how specific methods stand in relation to elements that are more theoretical is often not clear to see (Crotty, 2003). In addition, inconsistent terminology with the use of terms in differing and even contradicting ways is a common characteristic of the methodological field (Crotty, 2003). Before continuing, we feel like some methodological definitions need to be provided, as these terms will reappear throughout this section or are important for our and the reader’s understanding. We are talking about ontology, epistemology, axiology and finally, paradigm. Ontology is the broadest of the aforementioned terms and describes how the researcher views the world and the nature of our existence (Wilson, 2001). An epistemology is concerned with how the researcher views knowledge and how this is manifested (Wilson, 2001), but also how it is created, formed & changed. Finally, an axiology addresses values and how they influence the researcher (Hart, 1971). As Crotty (2003) puts it, ontology gives an understanding of what is, while epistemology covers what it means to know. Taking the work of Crotty (2003) further, ontology is not only what is, but also what may

22 While his work was first published in 1998, we were only able to acquire his edition from 2003.
become, based on the underlying ontology. In the same regard, epistemology does not just cover what it means to know, but also how this knowledge is created and how knowledge that already exists is subject to alterations. At least three epistemological positions have developed over time: objectivism, subjectivism and constructivism (Gray, 2014). A research paradigm is in its nature close to the research philosophy, because it encompasses the methods used during a research process in combination with the philosophy, among others. This makes the research paradigm the superordinate term used to essentially describe the underlying methodology and its philosophy. In this regard, Johnson & Christensen (2012) label a paradigm as an approach to how one thinks about and then does research. Because we believe that using the term paradigm only adds ambiguity and confusion to the following sections, we will refrain from elaborating strongly on a paradigm, but rather start with showcasing our philosophy.

3.1 Research Philosophy

In line with our purpose and in order to create an understanding of governance in small family firms, we are taking on interpretivism as our research philosophy. Since our research questions ask for context-specific phenomena and constructs resulting from the interactions of humans, this is plausible. As Crotty (2003) explains, interpretivism has come to light in sharp contrast to positivism as it tries to apprehend and explain the realities of human and social life. Ontologically, it is based on the subjective meanings that people have and how they look at reality as socially constructed (Saunders et al., 2009). In the previous section we have stated how objectivism, subjectivism and constructivism have emerged as the three main epistemological standpoints - although it needs to be remembered that there is only a thin line between ontology, epistemology and axiology. Constructivism as an epistemology is the one linked to interpretivism as a theoretical perspective (Gray, 2014). From this lens people cannot be separated from the knowledge they possess. Through the constructivist lens, truth and meaning are the product of the interactions the research subject has with the world, are hence constructed, and not externally given (Gray, 2014). In constructivism, a multitude of worldviews can exist and although they may contradict each other, this does not make them any less valid (Gray, 2014; in line with Saunders et al. (2009) regarding the interpretivist ontological standpoint). Constructivists tend to invent models and concepts to make sense of something previously experienced, and those constructions are steadily tested and possibly modified given new experience (Schwandt, 2000). The interpretations made do not happen isolated, but depend on mutual understandings, speech, practices etc. (Schwandt, 2000). In addition, a historical and sociocultural dimension to the construct cannot be denied (Schwandt, 2000). Here, we would like to touch upon intersubjectivity. Anderson (2008) explains that intersubjectivity stands in relation to interaction and shared understanding and that meaning depends on one’s position of reference. As such, knowing is not only the result of what an individual comes up with by him- or herself and meaning & understanding are placed on a continuum of shared intelligibility (Anderson, 2008). To sum it up, social constructionism is one of the several possible epistemologies of mentioned research philosophy. For interpretivists, reality is not independent, but rather contextual, dependent on our way of thinking and our view of the world, showing again where the philosophy is based ontologically and epistemologically. Multiple meanings and ways of knowing are accepted (Levers, 2013) and it is also believed that if our understanding is not incorporated in studies, a reality could not possibly be described. This also shows the interpretivists axiological standpoint, which is within the research he or she cannot be separated from, making the research value-bound (Saunders et al., 2009). Decrop (1999) reinforces this by showing that the relationship between researcher and researched subject is interactive, cooperative and participative. Then again, all research is value-bound to some (differing) extent. Interpretivists admit this and then attempt to deal with it constructively. On the other hand, positivists would struggle with this, as they believe that all biases of researchers can be eliminated when methods are used purely or neutrally.

Through the eyes of an interpretivist, human social action is principally meaningful (Schwandt, 2000). People create and connect their meaning subjectively and intersubjectively when

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23 As Crotty (2003) points out, writers active in research literature struggle to keep ontology and epistemology conceptually apart, since those issues tend to emerge together.
interacting with the world that is around them (Orlikowski & Baroudi, 1991). When social action is therefore to be understood, the researcher must be able to conceive the meaning underlying the social action (Orlikowski & Baroudi, 1991; Schwandt, 2000). Interpretivist researchers put a focus on such meaning in context, as only this makes the situation into what it is (Myers, 2009). What underlies this is that the data we are collecting include language that has been pre-structured in a meaningful way beforehand by other humans, labeling this facet of social science the double hermeneutic (Myers, 2009). This construct acknowledges researchers as being subjects themselves and interpreting social situations just as the people they study do, although to differing extents. The context that underlies our study is governance in small family firms. We interpret what our respondents say to understand what governance looks like in their firms and interpret their words to apprehend their motives for (not) having certain structures. In this regard we are putting our point of interest on something that is specific and that may be deviant from what we know previously, another characteristic of the our philosophy (Decrop, 1999). In line with using an interpretivist philosophy when studying small firms, Shaw (1999) presents research showing that using a positivist approach is inappropriate in this setting as many small firms are too immature in their stage of development to justify such an approach. The goal of research using interpretivism as a philosophy is to develop an understanding, to find out about the thoughts and actions of people, the problems they face and how they deal with them (Decrop, 1999).

To conclude this section, we would like to clarify some terminology, as it has been used and will reappear in subsequent sections: social constructionism and social constructivism, terms that are often used interchangeably, even by researchers. Robson (2011) explains again that in social constructionism, humans construct meaning as a result of their interactions and engagements in interpretations. While social constructivism is used in a similar way, it usually points at a focus on individuals and how they tend to construct and make sense of their surroundings, whereas social constructionism rather looks at the group-context. Although the two terms are close to each other in their meaning, the aforementioned differentiation justifies that we make use of both terms in our methodology, since it is of relevance to our thesis. Robson (2011) also points out how constructivist approaches are sometimes being labeled interpretivist to show the emphasis on how actors interpret the social world they find themselves involved in - another argument for why picking up on them in this section makes sense for us.

3.2 Research Approach

The two classic approaches to research are inductively or deductively driven. While induction basically starts from nothing and connects the dots along the way towards an eventually connected situation, deduction starts with a broad and informed view, ending up in a specific situation. Between those two concepts stands what is taken up as the research approach in this study: abduction.

As Van Maanen, Sørensen & Mitchell (2007) explain, abduction starts with an expectation that is unmet, working backwards to come up with a world that is plausible or a theoretical explanation that would make the encounter meaningful. Van Maanen et al. (2007) find it important to understand that abduction is a continuous process, happening during the entire process of the research with concepts and data continuously interplaying. Alvesson & Kärremann (2007) use slightly different words in describing abduction. To them, it involves three steps, namely (1) applying an established interpretive rule or theory, (2) observing a surprising empirical phenomenon and finally (3) articulating a novel interpretive rule or theory aimed at the resolution of the surprise (Alvesson & Kärremann, 2007).

In the previous section we have referred to Schwandt (2000) when speaking about social constructionism. He says that concepts and models are invented by constructionists to make sense of something that has been previously experienced. Those constructs were then tested and possibly modified given new experience. This is in line with the abductive research approach, as we switch back and forth between the literature and the field to make sense of what we have experienced during our work and during the conducted interviews (see section 3.4.2). In the
following sections we will further introduce the elements of our methodology and, instead of elaborating too much on our abductive approach at this stage, refer back to it when appropriate to show why these methodological elements fit well with our choice of an abductive research approach.

3.3 Research Design

Sticking to the metaphor of the research onion by Saunders et al. (2009), we have previously uncovered the first two layers, which were the research philosophy and the research approach. The next three layers, research strategies, research choices and time horizon, can altogether be labeled as the research design (Saunders et al., 2009) and will therefore be covered in the eponymous section(s). Different researches argue that other aspects of the research (like the research purpose, which we decided to cover in section 1.2 already, but will refer to and elaborate on again here) also belong to the concept of design. As Robson (2011) puts it, a qualitative or flexible study (as we use it) usually demands of the researcher to come up with a design that uniquely fits the topic under study and that aids us in answering our specific research questions. With this in mind we will now commence with presenting our design, or as Robson (2002) puts it, turning our research questions into a project.

3.3.1 Methodological Purpose of the Research

Researchers have the basic choice between an explanatory, exploratory and descriptive methodological purpose of the research. Explanatory research focuses on examining a problem and then describing the interrelations between variables (Saunders et al., 2009). Then there is the descriptive research, which, as the term suggests, tries to create a precise representation of persons, events or situations (Robson, 2002) and can be utilized as an extension to either explanatory or exploratory research (Saunders et al., 2009). However, we opt for exploratory research. As Myers (2009) explains, exploratory research is a way of conducting qualitative research that is mainly about the discovery and further exploration of novice phenomena. This method of research therefore is about generating, discovering and constructing theory, rather than testing it (Johnson & Christensen, 2012). It consists of three main steps. The first is to observe what is happening. Then the researchers evaluate these observations and search for patterns. Lastly the researchers start making assumptions and create generalizations about mentioned patterns and coherences (Johnson & Christensen, 2012).

Churchill & Lewis (1986) just as Shaw (1999) underline that such exploratory research is especially fit when researching in the small business setting, as researchers in that domain are mainly concerned with building theory rather than testing it. Staying in the small business world, Brytting (1991) is of the view that theoretical conceptualizations and models do not keep up with the importance of and interest in small firms. He continues by elaborating that the behavior of small firms might strike as irrational, complex and hard to grasp without theories and concepts of meaningful nature (Brytting, 1991). It is also due to this that we believe it is worth drafting an exploratory research design that can lead us to a better understanding of what small family firms do in regards to governance. Furthermore, this thesis intends to find out how something is happening that is not yet fully explored. Precisely, we intend to explore how small family firms implement governance structures that are appropriate for them (see our second sub-research question). This exploration of phenomena also suits well with our open-ended structure. Robson (2002) adds that an exploratory purpose aims at assessing phenomena in a new light - in our case assessing governance in light of small family firms. To complete this section, we would like to refer back to Saunders et al. (2009), who say that there are basically three ways of going about exploratory research: searching the literature, interviewing subject-experts and utilizing focus groups. We employ not just one, but two of these three principles, giving further justification for the exploratory outset. We do review the literature as we have extensively shown and we interview decision makers in small family firms - our experts in the subject field. Although we sometimes cannot avoid being descriptive in our elaborations, our main focus is to explore the phenomena.
3.3.2 Research Strategy

Our research strategy is *Grounded Theory* (GT), which is a qualitative approach regarding how a theory is generated and developed from the data collected by researchers in their studies (Johnson & Christensen, 2012). It generally suits our aim of research well, as grounded theory is a systematic, yet flexible research strategy that is of particular use in fields lacking theory and contextual ideas as it offers explanations for what is happening (Robson, 2011). As Myers (2009) shows, GT is of particular use when context-based and process-oriented descriptions and explanations for phenomena in organizations are in need of development. This certainly supports using grounded theory in connection with the interpretive philosophy we showcased in section 3.1. In addition, GT shows to have a history of covering *why, what, and how* questions (Charmaz, 2008), therefore justifying all of our three research questions in connection to GT. In her overview of the developments in the arena of grounded theory, Wilson (2012) cites others in describing how GT at first had a post-positivist intent\(^{24}\), but by now has various adaptations that fit different ontologies and epistemologies, such as post-modernism, situational analysis and constructivism. In classic or strong grounded theory, research would be diametrically opposite to positivist thinking\(^{25}\) and a study would always start out with the collection of data. However, we have decided to not elaborate too strongly on the founding work of Glaser and Strauss (1967), simply because *our* grounded theory deviates significantly from the original ideas. In her work, Charmaz (2009) points out that the differences in thought and theory that Glaser and Strauss had when first collaborating on what evolved to be grounded theory are responsible for the deviant directions the grounded theory method took afterwards, since it was placed on grounds that were ontologically and epistemologically precarious. Mills, Bonner & Francis (2006b) jump in on this by describing grounded theory as a *methodological spiral* beginning with the contribution of Glaser and Strauss in 1967 and continuing to date. The many epistemological standpoint grounded theorists have can be found in various spots on this spiral and show in return the underlying ontology (Mills et al., 2006b). Today, researchers basically have the choice between applying Classic GT, Straussian GT, Feminist GT or Constructivist GT (Breckenridge, Jones, Elliott & Nicol, 2012).

There has been a common problem among a myriad of studies employing grounded theory. Evans (2013) states that many researchers tend to clarify the fundamentals of grounded theory when using it, but they do not explain the distinctions between the different methods of grounded theory. Evans (2013) is especially troubled by there being a tendency in literature to cross-reference the various forms of GT that exist, leaving the novice researcher in a state of confusion and uncertain which method of GT they should apply. Since it is common that certain terms are used to describe more than one method of grounded theory, a reader must usually understand the different methods to be able to tell which one is currently being used (Evans, 2013). To avoid such ambiguity, we clearly state which method is applied here: *Constructivist Grounded Theory*.

As Breckenridge et al. (2012) explain, constructivist grounded theory was introduced by Kathy Charmaz mainly in the first decade of the present century as an alternative option to Classic GT and Straussian GT, emerging from a constructionist paradigm (Levers, 2013). With Charmaz’ interpretation of GT, a movement away from the objective position the researcher takes up towards a role in the construction of data and theory can be observed (Levers, 2013). As such, taking the position as a partner of the research participants and not of an objective analyst of what the participants experience is essential when it comes to engaging in constructivist GT (Mills, Bonner & Francis, 2006a). Constructivist GT is seen as an umbrella concept covering multiple different variants, focuses and directions (Charmaz, 2009). To Charmaz, it is a modern revision of Classic GT,\(^{26}\) takes on a relativist epistemology regarding knowledge as socially constructed,\(^{27}\) recognizes that the participants of the research just as the researchers themselves have several standpoints and takes up a reflexive attitude regarding what we do, what situations and participants are like, and what we think of them in the research setting (Charmaz, 2009).

While we as constructivist grounded theorists make use of a few strategies to focus the collection

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\(^{24}\) A post-positivist philosophy focuses on a description and exploration of in-depth phenomena in a qualitative way (Crossan, 2003).

\(^{25}\) A positivist philosophy has a clear quantitative approach at heart (Crossan, 2003).

\(^{26}\) As we have shown above, referring to the work of Glaser & Strauss (1967).

\(^{27}\) Hence, Charmaz (2009) is also referring to the epistemology.
and subsequent analysis of our data, what exactly we do, how we do this and why we do it is emerging through interactions in our research context, be it with data, colleagues or ourselves (Charmaz, 2008). Our first sub-research question asks why small family firms (try to) implement governance structures or choose not to do so. Taking a social constructionist approach to GT lets us tackle such why questions while at the same time retaining the complexity inherent in social life (Charmaz, 2008). Being an advocate for a constructivist approach to GT, Charmaz (2008) believes that it encourages innovation as researchers are enabled to generate novel understandings and theoretical understandings of the studied situations. Summing it up, Charmaz (2008) suggests that there are four principles that a 21st century constructionist grounded theory relies on. These are that (1) not just the studied situation but also the process of the research itself is seen as a social construction; that (2) decisions in the research and directions that it takes are questioned; that (3) methodological just as analytical strategies can be improvised and that (4) sufficient data is being collected to identify and document how our research subjects construct their lives and the worlds that they live in (Charmaz, 2008).

In section 3.1 we have shown that we use an interpretivist research philosophy. Although constructivist grounded theory can also be used in combination with other research philosophies such as pragmatism, Charmaz has moved GT with her elaborations and contributions further into interpretive inquiry (Thornberg & Charmaz, 2011). As shown in mentioned section, interpretivism is closely linked to constructivism from an epistemological standpoint. Although we said in section 3.1 that social constructionism is one of the epistemologies of the interpretivist research philosophy, we have now shown that constructivist grounded theory takes on a relativist epistemology. This terminological difference only seems problematic at first glance. For dissolving this we need to understand what a relativist epistemology means. As Siegel (2011) illustrates, the concept is about knowledge being relative to (one or more of) factors such as time, location, society and culture, among others. Therefore, epistemological relativism can be evaluated only when put in reference to one or more underlying background principles (Siegel, 2011). In our case, this background principle is social constructivism as the epistemological basis of the interpretivist research philosophy. After all, even Charmaz (2009) herself says that her version of GT sees knowledge as socially constructed. She elaborates with stating that while we as researchers construct processes and products of the research, these constructions happen in light of pre-existing structural conditions, come about in emergent situations and are under influence of our perspectives, locations and interactions, among others (Charmaz, 2009).

In this “soft” version of grounded theory, we acknowledge the existing knowledge of the phenomena, which comes from another context, namely either from corporate governance in non-family enterprises or from governance in family firms of incomparable size and structure. We take up that knowledge, go into the field and reserve the right not to impose it onto our sample firms. This gives us the classic distinction between the concept world and the operationalized field.

Section 2 of our work has seen us conduct a broad literature review, focusing on a variety of concepts relevant to our study, prior to going into the field. Nevertheless, we are currently arguing for a certain version of grounded theory, a concept that may not seem a natural fit to a literature review when only scratching its surface. In fact, there are certainly good arguments for choosing to engage in such a literature review - even at an early stage of the research. In his work named Informed Grounded Theory, Thornberg (2012) is concerned with adding strategies of literature review to the research approach of GT so that the process and product of the research are still grounded in data by methods of GT, but are at the same time informed by research literature and frameworks of theory that already exist. This is contrary to what the fathers of GT, Glaser and Strauss, suggested in their original work (and some developments of it). They argue mainly that researchers should delay their literature review until the very end of the research to remain as free and open for possible discoveries and to prevent contamination of their data, resulting in a suitable theory with a solid foundation in the empirical world (Thornberg, 2012). In one of his later works, Glaser (1998) also contends that from the beginning of the study until the completion of the analysis, one cannot know which literature is pertinent for one’s work and should therefore refrain from using it. He suggests the review to be
performed at what he calls the “sorting-writing stage” of grounded theory, which is to be found towards the end of the research project (Glaser, 1998).

Thornberg (2012) disagrees and presents multiple problems related to delaying the literature review. Among those is, as Suddaby (2006) clearly states, the possibility of using it as an excuse to ignore the literature. Suddaby (2006) reinforces this by clarifying that reasonable research is impossible to engage in without having clear research question(s) and without using prior theory. He also emphasizes that it was never intended by Glaser and Strauss to encourage research paths that would ignore empirically existing knowledge (Suddaby, 2006). Other problems associated with deferring the literature review are that a loss of knowledge is implied when reliable theories or findings are ignored and that one does not use the potential of the literature to help in enhancing the analysis or in coming up with relevant research questions, among others (Thornberg, 2012). We would like to finish this line of thinking with the work of Dunne (2011), who finds that confidence should be placed in researchers in that they are able to assess how existing theories have an impact on their research. He continues that it would be a pity when the many advantages of conducting a literature review at an early stage would be given up based on worries about the impact existing theory might have on researchers (Dunne, 2011).

In section 3.2 we have shown that we use an abductive research approach and mentioned that we would refer back to it to establish that it does indeed fit in well with our study and methodology. We do this now. Although in its essence, GT is an inductive approach to conducting research (Johnson & Christensen, 2012), in the multiple forms of GT there are, the collection and analysis of data, just as the development of theory and its testing can be interspersed (Robson, 2011). This is confirmed by Thornberg & Charmaz (2011), who point out that GT is an iterative process during which the collection and analysis of data happens at the same time and informs each other. These arguments are in line with positioning grounded theory also within an abductive research approach. Specifically for constructivist grounded theory, Charmaz (2009) agrees that while it adopts the inductive approach, it takes it further by including the abductive thinking, especially when checking and refining the development of categories. She explains that when a researcher employing grounded theory stumbles upon a surprising finding, he or she regards all possible theoretical ideas that could explain this finding, then goes back into the field to obtain more data in order to test the previous ideas and subsequently adopts the theoretical interpretation assumed to be most plausible (Charmaz, 2009). This is abduction, which underlies the process of going back and forth between data and conceptualization that is characteristic for GT (Charmaz, 2009).

While we will now continue with our research choice, which is naturally closely linked to the grounded theory we covered above, section 3.5 will pick up on how exactly we proceed with the data gathered and goes specifically into what our coding looks like.

### 3.3.3 Research Choice

If we look back at the research onion we have decided to incorporate from the textbook of Saunders et al. (2009), we would be confronted with either using mono method, multi-method or mixed methods as our choice of research. As the term suggests, mono method uses one single technique for the collection of data and associated procedures for analysis, whereas multi-method does so with more than one technique (Saunders et al., 2009). It should be recognized that mono method and multi-method choices are either of quantitative or of qualitative nature, but never blended. This is reserved for mixed methods, in which qualitative and quantitative choices for data collection techniques and analysis procedures are combined (Saunders et al, 2009). However, we will not enter the differences in more detail, as our work has mono method as a research choice. We are only conducting in-depth, semi-structured interviews in our sample companies. For an elaboration on these please see section 3.4 below.
3.3.4 Time Horizon

When looking at the time horizon, the researcher basically has the choice between a cross-sectional and a longitudinal study (Gray, 2014; Saunders et al., 2009). Robson (2011) also adds a retrospective design to this, but admits that this is in effect just a special version of a cross-sectional study. In our work, we opted for a cross-sectional study. This means that all measures are taken simultaneously, or because of practicability, over a short period of time (Robson, 2011). In our study, companies were not accompanied or studied longitudinally, because the time limitations of this thesis did not permit such work. Our cross-sectional study therefore only represents a “snapshot” of the phenomena in question (Gray, 2014). Since our main research question and our first sub-research question ask for choices and their results in the present and past, a cross-sectional study is also the appropriate choice. Nevertheless, our second sub-research question would also permit studying companies over time. Why we have not done this has been explained.

3.4 Techniques & Procedures

The choice of our data collection technique in this qualitative study has been presented and is inspired by our previously stated methodological elements. As we employ a rather soft version of grounded theory, which sees us going into the field with the right of not imposing what he have learned from literature on corporate governance and on governance practices in family firms overall, we have to find a middle way between a worldview that is influenced by theory and an empiricism that is unaffected by previous influences (Suddaby, 2006). This can be done by paying attention to existing theory on one hand, while at the same time reminding ourselves permanently that we are only human and that our observations are also a result of who we are and what we desire to see (Suddaby, 2006). What kind of interviews we conducted and how exactly we did this will be presented in section 3.4.2, right after some elaborations on our sample companies themselves below.
3.4.1 Our Sample

We have acquired our sample by a method of non-probability sampling, namely purposive sampling. As Johnson & Christensen (2012) state quite simply, this sees the researchers specifying the characteristics of a population that they are interested in and then trying to locate research subjects with those characteristics. Saunders et al. (2009) add that such judgmental sampling enables us to choose cases best suitable to answer our research questions and to meet our goals. Within grounded theory, purposive sampling is labeled as theoretical sampling, since the individuals interviewed are selected to aid the researchers in formulating theory (Robson, 2011). The process of how we went about the purposive sampling is explained hereafter. We made use of the Amadeus database, which provides financial information for public and private companies across Europe. We controlled for a maximum employee count and for the location, starting with Jönköping, our place of study, and extending outwards geographically. In this way, we obtained contact details for roughly 500 companies, of which about 120 were contacted after checking the companies’ boards and representatives for multiple individuals with the same last names, judging that they were likely from the same family. This was then confirmed after contact was established. Initially, we sent out emails, but quickly found that this did not generate a satisfactory response, which is why we switched to phone calls, which proved to be more successful, resulting in the interviews we have summarized in the table below.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Sector</th>
<th>Interviewees</th>
<th># Owners</th>
<th># Employees</th>
<th>Int. Date</th>
<th>Int. Length</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. B. International AB</td>
<td>Light Motor Vehicle Manufacturing</td>
<td>Mr. Ishwar Hirani</td>
<td>2</td>
<td>4</td>
<td>April 6(^{th}) 2016</td>
<td>52 Minutes</td>
</tr>
<tr>
<td>Kaminexperten Sverige AB</td>
<td>Trading of Wood Stoves &amp; Chimneys</td>
<td>Mr. Lars Holmer</td>
<td>2</td>
<td>2</td>
<td>April 11(^{th}) 2016</td>
<td>44 Minutes</td>
</tr>
<tr>
<td>Romans Fastigheter AB</td>
<td>Lessors of Real Estate</td>
<td>Ms. Lova Roman</td>
<td>2</td>
<td>7</td>
<td>April 12(^{th}) 2016</td>
<td>62 Minutes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mr. Anders Roman</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joh. Engströms Eftr. AB</td>
<td>Jewelry Stores</td>
<td>Mr. Fredrik Stenman</td>
<td>1</td>
<td>14</td>
<td>April 14(^{th}) 2016</td>
<td>29 Minutes *</td>
</tr>
<tr>
<td>Yxhage Lås &amp; Europa Larm AB</td>
<td>Commercial Security Equipment</td>
<td>Mr. Mats Yxhage</td>
<td>4</td>
<td>10</td>
<td>April 20(^{th}) 2016</td>
<td>64 Minutes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ms. Katharina Yxhage</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Två Liljor AB</td>
<td>Grape Vineyard &amp; Juice Production</td>
<td>Mr. Jeurgen Thelander</td>
<td>2</td>
<td>0</td>
<td>April 21(^{st}) 2016</td>
<td>54 Minutes</td>
</tr>
<tr>
<td>Etcetera Offset AB</td>
<td>Commercial Printing</td>
<td>Ms. Malin Nyström</td>
<td>3</td>
<td>12</td>
<td>April 25(^{th}) 2016</td>
<td>56 Minutes *</td>
</tr>
<tr>
<td>Company H</td>
<td>Restaurant &amp; Bistro</td>
<td>Mr. Sven Eriksson</td>
<td>3</td>
<td>12</td>
<td>May 2(^{nd}) 2016</td>
<td>41 Minutes *</td>
</tr>
</tbody>
</table>

Table 1: Overview of Sample Firms and Interview Partners

\(^{28}\) In one case, snowball sampling was used, as it was brought to our attention by one of the interviewees that Company H is a family business that could be of interest to us.
We have conducted a total of eight face-to-face interviews with 10 respondents between April 6th and May 2nd 2016. On average, the interviews lasted a little over 50 minutes. Only a single researcher conducted the three interviews marked with an asterisk. We have offered every single one of our respondents prior to and after the conducted interview to treat their data anonymously, so that their names or firms could not be connected to the data they provided us with. However, all but one had expressed such a wish. Mr. Sven Eriksson is therefore a fictional name and we labeled the company he represents as Company H.

What becomes visible is that the firms of our interview partners are diverse and all active in very different fields. As Saunders et al. (2009) point out regarding different versions of purposive sampling, such a heterogeneous sample as ours is useful in a type of research that aims at developing key themes. There were similarities just as there were strong differences. We feel like we have gotten as much variation between our sample firms as possible and are contented with it, as it opens up the complexity of the field under study. Section 4 will reinforce this. Before continuing, it should be noted that three of our companies employ slightly more than 10 employees. Although we said that we were generally following the definition of what the European Commission (2016) defines as a micro company, we also stated that we allow ourselves some flexibility in this regard and do not think that this deviation is of relevance.

3.4.2 Our Interviews

Interviews have the characteristic that they enable us to collect rich data from people found in various roles and situations, with the role of the interviewer to listen, summon, encourage and direct (Myers, 2009). It goes without saying that we do not collect secondary but primary data, which is known to add credibility and richness to qualitative studies (Myers, 2009). When conducting interviews, researchers have the choice between structured, unstructured and semi-structured interviews. In our study, we employ the latter, as we think that it combines the advantages of both the structured and unstructured interviews. According to Saunders et al. (2009), these are also frequently used in exploratory studies. Semi-structured interviews use some pre-formulated questions, although those do not have to be adhered to (Myers, 2009). In addition, new questions might come up in the process of interviewing. Nevertheless, consistency across interviews does exist to a certain extent since interviewers usually commence with a set of questions that are alike (Myers, 2009). This is exactly how we proceeded. The semi-structured approach gives us the opportunity to add insights as they come up, while at the same time remaining focused with prepared questions written down (Myers, 2009). We have prepared a number of opening questions aimed at getting our respondents to broadly talk about the topics that are of interest to us. Those warm-up questions inquire about the respondent him- or herself, the company and their role in it, and their take on governance. Depending on where he or she is headed, we either follow their lead and then confront them with very specific questions regarding what they chose to speak about, or guide the conversation elsewhere again. We need a mixture and a good balance between open questions and those that derive from our pre-understanding that is rooted in existing literature. By not sticking to a completely thought through set of questions we enable the discovery of previously unknown facets and connections. We avoid the conceptual imposition by specifically asking a myriad of questions on governance, but rather ask about the potential manifestations of the governance concept, often avoiding the word governance altogether.

In grounded theory research, we as researchers are anticipated to enter the field multiple times for the collection of data. The first interview will provide us with results and questions informing the next interview that will take place (Small, 2009). Ideally, our trips into the field last until the categories that we found in our analysis show signs of saturation and the interviews conducted provide us with less and less novel or unexpected information (Robson, 2011; Small, 2009). In our case, after having conducted the eighth interview, the interviews slowly began to provide us with less novel or unexpected information. However, we cannot argue that saturation had occurred and therefore decided to terminate our fieldwork. Rather, the time constraints coming

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Thornberg & Charmaz (2011) call this point theoretical saturation.
along with this work were responsible for the termination of interviews. Nevertheless, we believe that sufficient and rich data was collected, allowing us to fulfill the purpose of this work well and properly.

3.5 Analysis of Data

Coding is the first step in data analysis, as it leads the researchers from having a description to an abstract account of their description (Charmaz & Belgrave, 2012). Coding is the essential connection between collecting data and developing a theory that explains the data (Charmaz, 2006; Charmaz, 2014). It means to categorize segments of gathered data with a name that accomplishes to summarize and account for the data piece (Charmaz, 2006). As we have shown in our research strategy and at other points of this work, we as researchers already possess a theoretical background-knowledge of the field and do not conduct this study completely inductively, thus need to be reflexive about the constructions that inform our analysis (Charmaz, & Belgrave, 2012). What is qualitative coding? It is the process by which researchers define the data they have collected, is achieved by labeling the data and assigning meaning to it in a way that also summarizes and categorizes it (Burns, 2000; Charmaz, 2006). Coding is a slow process and cannot be done overnight (Burns, 2000). It is inherent that researchers should re-read their notes numerous times before they understand the macro topics that are present in the data (Burns, 2000).

Grounded theory coding has a minimum of two stages (Charmaz, 2006), namely initial coding and focused coding. While the researchers are in the initial stage, they should be open to all possibilities. Initial coding, which is also known as open coding, should stick closely to the data. Such coding is usually done on the margin of the transcript document. The code may refer to a sentence, phrase and even a paragraph. Occasionally there might be a double reference that is then called a double-code (Burns, 2000; Charmaz, 2014). The researchers should see the actions in each segment of data rather than apply pre-existing categories onto the data (Charmaz, 2014). Therefore, we have not created any codes in advance, but as we analyzed the data instead. We also have attempted to code words that reflect some type of action. Therefore, we have avoided coding people, as this would push us towards focusing on individuals rather than what lies in the data (Charmaz, 2014). When analyzing the data gathered, we followed the suggestions by Thornberg & Charmaz (2011) and used questions such as, What is happening in the data? or What does this incident, statement or segment indicate?. We can be analytical and critical at the same time when using these types of questions as a flexible way of seeing what is happening in the data.

We conducted the initial coding with different strategies, including word-by-word, sentence-by-sentence, in vivo\textsuperscript{30} or incident-by-incident coding (Charmaz, 2006; Charmaz, 2014). Thornberg & Charmaz (2011) actually encourage this use of more than one strategy when analyzing the initial codes. Initial coding gives us more than one direction to consider, however, as Thornberg & Charmaz (2011) point out, researchers should, especially in the very early stage of coding, refrain from deciding on a certain direction to head in. Later, when more data and codes are available should the researchers do a constant comparison between the data and then a general pattern can emerge (Thornberg & Charmaz, 2011). The initial codes are only temporary and are always up for adjustments and editing to improve the fit with the data. Once we analyzed the text we constantly compared the different interviews to each other and tried to find new data. This stands in connection to what Charmaz (2006) labels (constant) comparative methods. It comprises of comparisons happening at every stage of analytical work with data being seen in perspective to other data to uncover similarities and differences, e.g. making comparisons between statements in different interviews (Charmaz, 2006). What helped us in this regard was also memo-writing. While interviewing and listening to the recordings, notes were taken to help us see and analyze the data and make connections that perhaps would have stayed hidden otherwise (Thornberg & Charmaz, 2011).

\textsuperscript{30} In vivo coding refers to codes regarding special terms used by respondents (Charmaz, 2014).
Our initial coding strategies led us having codes of different length, ranging from a single word to complete sentences. We used different strategies of initial coding due to the recommendation by Thornberg & Charmaz (2011) and due to our choice of grounded theory. There was no need to code entire interviews word-by-word or line-by-line, as elements of small talk and sections regarding completely unrelated topics could not be entirely avoided. Looking at our data, coding paragraph-by-paragraph often seemed to be the best solution. On occasion, double-coding could also be found. In total, 467 codes or lines of code emerged. Initially, we started by listening to our recordings & looking at the transcriptions simultaneously and did the initial coding individually, before doing it again together, leading to new codes being missed in the beginning. As we felt that our coding increased in quality once we learned how to properly do it and once we had gotten into a routine, we decided to redo the initial coding, leading to the 467 codes mentioned above.

By conducting the initial coding, we received a good overall picture of the data. Focused coding is then the second stage in coding the data (Charmaz, 2006). In this, researchers pinpoint and develop their more relevant codes and put them to test with the remaining data (Charmaz, 2014). In discovering the most frequent and perhaps most significant codes, we also used an online tool to highlight and list the words that showed to be most frequent in our coding. First and foremost though, we worked with a printed version of our initial coding. This covered entire tables and saw us moving around and playing with the data to make sense of it. The focused coding stage therefore saw us breaking down our initial codes, often using methods of trial and error. We tried to see similarities and differences between codes to be able to identify what can be grouped together and where connections are apparent. The different interviews were constantly compared in correspondence with the (constant) comparative methods, labeled as such by Charmaz (2006). In these ways, 467 codes slowly but steadily, over multiple rounds of focused coding, evolved into nine different categories. Of course, some initial codes were not considered in the end.

### 3.6 Aspects of Quality

With this section we are now departing in mind from the research onion of Saunders et al. (2009) and look at ethical concerns and trustworthiness.

#### 3.6.1 Research Ethics

Ethically sound research is of high importance to us and some aspects of it have already been presented in our sections 3.4.1 on our sample and 3.4.2 on our interviews, especially regarding anonymity. As we stated, only one of our respondents had wished for him and the company he represented to be handled in an anonymous matter, which we obviously complied with. Although only being the case for one firm/interview, we took the concept of privacy seriously. We also promised confidentiality, meaning that we would not share our raw data on this interview with anyone, as Saunders et al. (2009) propose. Nevertheless, more aspects are important when it comes to ethics, as this is an essential concern regarding the quality of any research and is of importance throughout the entire research process (Saunders et al., 2009). Therefore, this section certainly has its standalone raison d’être.

Johnson & Christensen (2012) state that the treatment of the participants of research is regarded as the most important and fundamental matter researchers find themselves confronted with. Robson (2011) highlights the importance of informed consent. Although not requiring of our interviewees to sign a written agreement, we reached this through interacting with our respondents before the interviews and making sure that they knew what was required of them and what kind of information they would be sharing with us. Although, in connection to the nature of our research, we did not provide them with pre-defined questions that they would be able to prepare themselves for, we made sure that our interviewees knew that they could withdraw from our research at any moment in time (Robson, 2011). After the conducted interviews were transcribed, the transcriptions were sent to the respondents to check for errors and for possible clarifications. Although we did not receive feedback regarding those transcripts
from every single one of our respondents to date, we are showing our good intentions. In this regard we also want to mention that we believe in the possible benefits for our respondents and their firms, which is why we will provide them with this final work in order for them to see what has been actually done with their data and for them to take learnings away as well.

Last but not least, we would like to speak about scientific fraud, which would be the intended deception of the scientific community and others, and poses a serious type of researcher-misconduct (Robson, 2011). It stands in connection to academic dishonesty and the fabrication of information, references or results (Robson, 2011). We strongly distance ourselves from this. We distance ourselves from fabricating results, leaving some out or changing them to fit in with what we would like to tell, which are all elements of scientific fraud (Robson, 2011). For us there is no motivation and certainly no excuse to do so. We are not paid for our research, do not profit from certain results and are not dependent on specific outcomes.

3.6.2 Trustworthiness

While concepts in the field of research ethics are of a more general nature, this section on trustworthiness will look at more specific aspects of quality in a research setting. Robson (2011) takes a rather balanced approach to trustworthiness and shows how terms and concepts differ between quantitative and qualitative inquiry and how there is debate whether concepts from the quantitative field are applicable to the qualitative field, to which also grounded theory belongs. Sinkovics, Penz & Ghauri (2008) present that reliability, validity, generalizability and objectivity are essential concerns in quantitative research, however, they end up being too blurred for qualitative research. In this, rather credibility, dependability, transferability and confirmability should play a role (Sinkovics et al., 2008).

Credibility, in quantitative research close to the concept of validity, is described as confidence in the truth of the findings based on the research design, informants and context (Krefting, 1991). For us this means that we need to be confident that our results are in fact true. In order to describe what we encounter correctly, we audio-recorded the conducted interviews and carefully transcribed them fully afterwards. After one of us had done so, the other would listen to the interview again and check that the transcription was in fact correct. Those transcriptions are available from us upon request, with the exception of the one with Sven Eriksson, as he requested to be handled anonymously. Putting the remaining transcriptions in the appendix to this work would go beyond the constraints, as they are extremely comprehensive. Also, in order to ensure credibility, we do not impose a framework or other kind of theory on the situation under study. Although in our setting, as we outlined in section 3.3.2, we do acknowledge existing theory on corporate governance in general and on governance in larger family firms, we reserve ourselves the right to not impose this on our research context. Rather, we check if this is at all applicable and, if not, derive new frameworks from what we have learned. In addition, in terms of credibility, we avoid dismissing alternative explanations for what is being observed by generally presenting alternative viewpoints and keeping an open mind in the research process. Our semi-structured interview questions also aid us in this endeavor. Finally, as Robson (2011) shows, triangulation is a concept that can support validity or credibility. Shenton (2004) goes more into detail in saying that a triangulation via using different methods, types of informants and sites aids in achieving credibility. We do this.

Dependability, in quantitative research close to the concept of reliability, is concerned with the stability of results over time (Krefting, 1991). As Robson (2011) states, for qualitatively gathered data, formal reliability testing is not feasible. What researchers can do is to critically scrutinize whether or not the methods and research practices they use are reliable or dependable (Robson, 2011). This involves being rigorous, acting carefully and honestly while doing research (Robson, 2011), which we try our very best to do. This is exemplified by us audio-recording the interviews using two independent devices when we are both present to absorb the potential risk of one of them failing or one of us operating them faulty. In addition, one of the two researchers takes handwritten notes. We are also providing our transcriptions of the conducted interviews, with one (mentioned) exception, upon request to prove abovementioned honesty. Easton, McComish & Greenberg (2000) take up this line of thought and present three threats that our research is confronted with in the process of data collection and transcription: the failure of equipment,
transcription errors – both of which we addressed above – and environmental hazards/distractions. To avoid the latter, Easton et al. (2000) suggest to make sure to schedule the interviews ahead of time and to arrange them in a setting that is distant from where most activity takes place. We made sure to follow their advice. Additionally, referring back to the avoidance of transcription errors, Easton et al. (2000) state that it would be ideal if the researchers were also the interviewers and transcribers. This is the case with us.

Transferability, in quantitative research close to the concept of generalizability, is concerned with how the findings of a study show applicability in another context (Guba, 1981, as cited in Krefting, 1991). To reach transferability in a qualitative study, Shenton (2004) suggests providing background data to establish the context the study is being conducted in and to provide a detailed description of the researched phenomena to allow for future comparisons. We made sure to follow his advice throughout our study. To exemplify, we explicitly stated where the data is being collected geographically and what the requirements for firms were to qualify for our study.

Confirmability, in quantitative research close to the concept of objectivity, involves that the researchers take steps to show that findings are emergent from the data and not from their own predispositions (Shenton, 2004). Shenton (2004) adds that triangulation should be used to reduce the effect of investigator bias. Our study profits from the duality of researchers throughout the entire research process. Having more than one researcher and therefore also multiple perspectives on the topic researched can be favorable (Myers, 2009). Additionally, describing in detail how the process of our research went about and how the sample was acquired ensured confirmability.

Finally, we did not presuppose to get access to every company that we would have liked to be granted access to. In our attempts to get interview partners, we were confronted with a reluctance of subjects to speak with us due to language barriers, disinterest or time constraints. Of the 120 firms we attempted to contact or were successful in contacting, only eight were able to support us. Hence, we do not know anything about the majority of firms and their representatives that we did not get the chance to speak to. Regarding our sample of companies, we need to clarify that we are not choosing companies based on what we think about their governance and are therefore non-judgmental in our approach. Since our companies are of small size, when initially contacting them we do not and cannot know what kind of governance they (do not) have in place, simply due to limited information. We are not entering the field with a bias formed and do not have a predefined set of what “good” or “bad” governance is in our minds. What we are assuming is that the sample firms do have some kind of governance in place - be it formalized or non-formalized. Without judging whether this is good or bad, it has brought the firm to where it stands today and our interview questions have aimed at examining their state of governance.

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31 This duality is only mitigated in terms of our interviews, as three of these were conducted by a single researcher.
32 It is not like their governance structure is outlined on their website.
4. Empirical Findings & Analysis

The following sections will see us closely looking at our data. First of all, the focus companies shall be introduced (4.1), followed by an overview of the nine categories extracted from the data (4.2). Then, the findings for each category shall be presented and subsequently analyzed (4.2.1 - 4.2.9). We make it a point to connect the individual analysis sections with our literature review, where possible.

4.1 Company Profiles

**S. B. International** is a business located in Jönköping that was bought in 2000/2001 by our interviewee Ishwar Hirani and his brother in law, Kanti. Both of them have immigrated from India and own an equal amount of 50% of the firm. Those two are also the sole members of the company's board and are both actively working in the business, together with currently four employees. The firm has shown strong growth over the previous decade, has a full order book and is relying heavily on export. The core business is the manufacturing of custom-made light motor vehicles mostly for amusement parks around the world. Although the manufacturing of the components is mostly outsourced, the firm assembles all vehicles in-house. The company itself is owned by a holding company of which Ishwar and Kanti each own 50% as well.

**Kaminexperten Sverige AB** is a company bought by Lars Holmer in 2006. He shares the ownership on a 50/50 basis with his wife, who does not work there actively. Instead, there are two other full-time employees. The board consists of Lars, his wife and his brother. The firm itself is a trading company for chimneys, wood stoves and accessories for wood-burning stoves. Almost all of the products they sell are imported from other European countries and then distributed through Kaminexperten in Scandinavia. At their location in Bankeryd they have a large warehouse, from which the roughly 3,000 stoves they sell annually are distributed. Lars Holmer has decided to outsource the company's sales force and accounting activities. The company itself is owned by a holding company, of which Lars and his wife each own 50% as well.

**Romans Fastigheter AB** is a real estate company located in Gränna that is currently owned by Anders Roman (75%) and his wife Lova (25%). The business was passed on to Anders and his brother by their father in 1989, however, the brothers decided to separate in 1995, which is when Lova entered the firm as an owner. She started working there later in 2002. Romans Fastigheter owns and rents out real estate to individuals, restaurants and shops in Gränna and its surroundings. Besides the two owners, there are seven other people employed by the firm. While Anders is not involved in the day-to-day work of the firm, Lova can be found managing the daily business. Romans Fastigheter AB also includes a small building company, operating in-house.

**Yxhage Lås & Europa Larm AB** is a company based in Jönköping with one large and one smaller store, selling and installing security equipment, mostly to commercial customers. Mats is currently owning and running the business with his two brothers and his sister, Katharina. While Katharina owns roughly 5% of the firm, the brothers share the remaining percentage equally, resulting in an ownership between 31 and 32% each. All four siblings had been working in the company, although for different lengths, and had owned shares prior to their father leaving the firm in 2003. After his departure, his remaining shares were distributed among the siblings. The firm itself is owned by a holding company, which owns the house where the larger of the two stores can be found in. 10 employees currently work for Yxhage besides the owners.
Två Liljor AB is a company active mainly in Gränna with a grape vineyard and juice production. It is owned by Jeurgen Thelander (50%) and his wife (50%). The company was founded in 2011 and has no further employees. However, they work closely with a larger company situated outside of Huskvarna to leverage their own business and possible contribution. Besides the married couple, one of their three daughters is a board member, whose financial expertise is of use to the firm.

Etcetera Offset AB is a commercial printing company located in Borås. It is owned by Malin Nyström, her sister (together 49%) and their father (51%). He was also the one who founded it in 1974. Over the years, also Malin’s mother and her two brothers had shares in the firm, but when exiting the firm, a family member has to return his or her shares to the others without compensation. In other words, if one does not work in the firm, one does not have any shares in it. Besides the three current owners, there are 12 employees on the payroll. The father is currently in the process of retiring, which sees the family and firm confronted with challenges.

Company H is active in the restaurant & bistro business. It is owned by Sven Eriksson, his sister and her husband. Both of the latter own 25% of the business, while Sven owns 50%. The siblings come from a business-family with both parents owning their own business, all of which can be found in Sweden’s Småland region. They bought the firm in the early years of this decade and have operated it since. While his brother in law never actively worked in the firm, Sven and his sister’s commitment have shifted over the years as a result of family- and study-related matters. While the business has 12 full-time employees, depending on the season this number might be raised quite significantly.
4.2 Findings Categorized

We have concluded section 3.5 by stating that our initial codes have eventually left us with nine different categories. Those can be seen in table 2 below:

<table>
<thead>
<tr>
<th>Category 1</th>
<th>Category 2</th>
<th>Category 3</th>
<th>Category 4</th>
<th>Category 5</th>
<th>Category 6</th>
<th>Category 7</th>
<th>Category 8</th>
<th>Category 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership &amp;</td>
<td>Holding</td>
<td>Advisor &amp;</td>
<td>Responsibility</td>
<td>Formality</td>
<td>Informality</td>
<td>Conflict</td>
<td>Succession</td>
<td>Discussion &amp;</td>
</tr>
<tr>
<td>Board</td>
<td>Company</td>
<td>Ext. Help</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Conversation</td>
</tr>
</tbody>
</table>

Table 2: Core Categories

We would like to note that the order in which these categories appear shall not give a rating of their relevance. In the sections below we shall go into each category in detail, first stating the findings and then analyzing them, respectively.

4.2.1 Ownership & Board

Our focus companies have different ownership structures, ranging from a single owner up to a shared ownership by four people. This structure is manifested in a board, which every Swedish firm is required to have by law. All our firms are what is called an Aktiebolag (AB), something that would translate into a private limited company in English. According to Bolagsverket (2016), the Swedish Companies Registration Office,

“A private limited company can have a board of directors consisting of only one or two board members and, if so, a deputy board member must also be appointed. If the board consists of two or more board members, the shareholders must appoint one of the board members as chairperson. A private limited company does not have to appoint a managing director.”

As all our companies adhere to Swedish law, this is also what their formal structures look like. In all of the sample companies, the owners are also board members and the five companies with only one or two owners all have one or two deputy board members appointed.

S.B. International AB was bought by two family members, each having 50% of the business. They have set the ownership structure 50/50 to be both working “under the same conditions”, as Ishwar puts it. The same ownership structure counts for Kaminexperten Sverige AB, although there, Lars’ wife is not working actively in the firm. At Två Liljor AB it is exactly the same. Jeurgen’s reasoning for both having the same shares in the firm is the following:

**Jeurgen:** “She has a good strategic thinking, so when I’m going forward, she will have the foot on the brake, so that’s a good mix.”

At Company H, Sven is equipped with 50% of the shares, while his sister and her husband have 25% each. He shared with one of us how this came about:

**Sven:** “I got 50 and they get 25 each. So they’re like 50. We said that in the beginning, I think they’re like one, so if they have 66% and I have 33 (…) it’s not dynamic… I think it’s hard to cooperate if he doesn’t work there at all. (…) So, if I were supposed to give 100% I wanted 50 (…).”
At Yxhage Lås & Europa Larm AB, Katharina has about 5% of the shares, while her three brothers share the rest, amounting to a number between 31 and 32% each. Mats said:

**Mats:** “Me and my two brothers own about 31%, 32%, and the rest my sister, because she came in that late. She has been working with other things before.”

The brothers had been working in the firm long before Katharina decided to enter, which is why their father decided on this allocation of shares. Mats further elaborated:

**Mats:** “If two brothers agree at the same thing, it’s decided, they have the majority. Me and my sister can’t get it. She can’t get with one of my brothers, but as she said two, three, four times maybe we have voted in the last 11-12 years.”

Additionally, passive ownership is not possible in this firm. This holds also true for Etcetera Offset AB, where Malin and her sister share 49% of the firm while their father holds 51%. Previously, also her mother and two brothers held shares in the firm.

At our two sample companies Engströms Urmakeri and Romans Fastigheter AB, Fredrik is the sole owner of the former and at the latter, Anders and Lova expressed that to them it was only of importance that they owned it together, although Anders would have the formal decision making power, as he owns 75% of it.

Yxhage Lås & Europa Larm has additional structures in place that could be described as extensions to the board that is required by law.

**Katharina:** “We have a companionship agreement that we have all signed if someone is being sick and they can’t get back to work, if someone dies, if someone wants to quit working.”

For this, they would look at the financial data of the previous three years and then derive a valuation of the individual shares that can be used as a basis for payout. This firm also has monthly meetings among the owners, together with their external advisor (see section 4.2.3 on more information). The setup is semi-formal and could be described as a board meeting, if it were not for the external member attending. It was shared with us that at these meetings, the important decisions are discussed. If this monthly meeting is scheduled in the too distant future for an imminent decision, then decisions are made informally.

Regarding the setup of an ownership structure, we have learned that it has far-reaching consequences. Katharina of Yxhage Lås & Europa Larm AB shared the following with us regarding the possible sale of the firm. It should be noted again that her share of the firm amounts to roughly 5%.

**Katharina:** “It’s rather easy for me. (…) I own such a small part, so I know when we sell this company, if we sell it, depending on which age I have; I have to have another job. So if I can’t work here with my brothers then it’s not that painful for me to sell it to them or to another.”

**In analyzing the section above,** aforementioned board is the only formal governance structure a Swedish firm needs to have. It is also the one we can most classically use to connect our small family firms with in terms of formal governance. However, we have found that our firms hardly use it. It mostly exists on paper and the members only formally recognize it as such a board when they assemble for their annual accounts. In section 2.3.3 on boards in family firms we mostly talked about larger family firms, as this is what literature on boards in family businesses is largely on. Nordqvist et al. (2014) propose that when the ownership and management of a family firm sees a variety of family member and non-family member involvement, then governance instruments such as the board of directors or a top management team can become viable tools to the firm. With our data we can only speculate that this is correct. So although the owners of our focus firms only implicitly think about their board setup, they very actively think about the ownership structure and take care in designing it, which in turn is resembled in the companies’ (unused) boards. At S. B. International AB, Kaminexperten Sverige AB and Två Liljor AB, the two owners decided to own 50% of the business each so that none of them could make a decision without the approval of the other. At Company H it was supposed to be avoided that Sven’s sister could do so simply together with her husband and in that way exclude Sven. At Etcetera Offset AB and at Yxhage Lås & Europa Larm AB, no one that was not actively involved in the business was supposed to be able to have a say in it. At the former, Malin’s father, although giving away almost half of the shares to his children, still
wanted to retain formal control, hence owning 51% of the firm. At the latter, since Katharina entered late, she was not supposed to have a large influence on the decision making either. In regards to her situation and in her father distributing the business to his children in a way that he believed to be fair, we are able to connect some literature. According to Baù et al. (2013), family firms are governed through emotional aspects such as perceived fairness, which is clearly what Katharina’s father acted upon. Not allowing passive ownership in Yxhage Lås & Europa Larm AB and in Etcetera Offset AB stands also in relation to perceived fairness.

In section 2.3.1 we explicitly presented family governance, with Bennedsen et al. (2010) stating that the governance of the family standing behind the firm largely determines a family firm’s governance. Additionally, Gersick & Feliu (2014) present that families owning businesses have organizational work in front of them as families. We also showed how Brenes et al. (2011) state that family governance seems to be more important to larger families with larger amounts of family members not taking an active part in the business and smaller firms finding family governance to a large extent redundant. All of these aspects are represented in our data as shown in the section above and confirm previous researchers’ findings.

4.2.2 Holding Company

Another rather formal construct that four of our firms have in place is that of a holding company. Such a holding company does not do anything, but owning the companies in question here - holding it, quite literally. Looking at a larger scale, Berkshire Hathaway is a very prominent holding company.

S. B. International, Kaminexperten Sverige AB, Yxhage Lås & Europa Larm AB and Etcetera Offset AB have such a holding firm in place.

Lars of Kaminexperten Sverige AB gives multiple reasons for using such a firm:

Lars: “It’s for the future use (...) and it also has to do with the finance when I bought the company.”

Lars: “When you should finance the (...) business you need to get money from the bank and you put some private money (...), it’s better if you put that into a holding company and then the holding company buys the company. So all the finance is done through the holding company (...), it has to do with risk management sort of.”

Lars: “And it’s also when in the future you want to sell the company, the money will be put untaxed into the holding company. That means if you want to do a new investment in the future the money is (...). And it also has to do a little bit with the risk handling as well. Then you have all the risk in the holding company but not in your private situation. So that’s the reason really and if I want to do something more in the future, buy another company or something, it’s better to have a holding company to keep it separate.”

For both Yxhage Lås & Europa Larm AB and Etcetera Offset AB, the holding company owns the property where the business is situated in, in addition to the firm itself. In the former case, the percentage owned in both the property and firm is identical while in the latter case, the property is owned completely by the father. This, as Malin points out, comes along with problems. She describes how for once, her father would like to sell the house to receive money for retirement. This would mean that Malin and her sister would have to buy the house from him, which would put financial strain on them. As a second problem, also her brothers, who are not involved in the firm anymore, would like to use the property the house is on for their own businesses.

In analyzing the above, it shows straightforward that small family firms tend to use these when it makes sense due to their financial situation or when more assets than the company itself, like real estate, belong to the family firm construct. We can only speculate as to why our other sample firms did not choose to do so and can think of three explanations. First, they might have judged that no financial or other benefit would come from such a setup for them. Second, there may not have been other assets such as real estate to be managed as well. Third, they may not have been aware of that possibility altogether.
As shown before, all companies in Sweden require a board when the company is founded. They also require having an auditor. Since those are required, we do not consider them to be additional advisors or external help even though they have some consulting positions. An example for the mentioning of an auditor is Lars from Kaminexperten Sverige AB:

**Lars:** “I don’t have any external board today that we use, we have of course a board but that is me and my wife; and my brother is actually a deputy, that’s a necessity. But I do have some external advisors. One of them is of course my (...) auditor.”

Law in Sweden requires these auditors. A company may only be exempt from this when they fulfill certain conditions (this was not the case in our sample). Sven Ericsson of Company H, who comes from a business family, gives an example of what we consider to be informal advisors.

**Sven:** “(...) I think during all dinners around the table (...) that’s the only thing we’ve been talking about (...). Especially in the beginning it was very good to have them, to talk to them, get advice... because it’s so much to think about with staff, permissions for alcohol, all that.”

Sven has very informal advisors and settings where he can discuss the business and get ideas and support from his family members. They thus act as informal external advisor, to him and his sister. Besides Sven’s elaborations on informally discussing the business, only Två Liljor AB has settings in which other family members give informal advice.

Two other companies, Yxhage Lås & Europa Larm AB and Etcetera Offset AB, have formal advisors available to them. Mats from Yxhage Lås & Europa Larm AB says:

**Mats:** “(...) and then we have a guy that comes from the outside and looks with clear eyes and he is the chairman on this meeting.”

**Mats:** “But he can recommend and he leads the group (...), but he doesn’t decide. He says ‘you decide; I can only give you advice’.”

**Mats:** “We siblings had more respect for him than for each other, if he said ‘Mats do that to the next meeting’, I write it down and did it. If she (referring to Katharina) said it to me I say ‘okay maybe I’ll do it, but probably not’.”

**Katharina:** “He came in and gave structure to the meeting, he did the protocol, he was the one who called us and said ‘now Monday that time, that day, we are going to see each other’.”

The next remark is from our interview with Malin of Etcetera Offset AB:

**Malin:** “Yeah, we hardly have a board or something but we have (...) a group where me and my sister and my dad and another guy meet and talk about the company, what way and stuff like that. But he is not the... the 4th guy is not involved how my dad wants to do the company.”

The only difference between these two setups is that Yxhage Lås & Europa Larm AB pays their advisors while Etcetera Offset AB does not. The latter employ an old customer who can give invaluable insight and advice, also from the customer's perspective.

Besides receiving advice and help from the outside, be it formally or informally, our sample firms have entered other forms of commercial partnerships. Kaminexperten Sverige AB and Två Liljor AB decided to enter such relationships, although of different kind. Lars from Kaminexperten Sverige AB mentions:

**Lars:** “One is the external sales force. They give a lot of new input concerning questions that have to do with the selling and the marketing, everything from campaign, how we strategically choose to work, e-commerce for instance, how we should work with new chains and how we should handle new products. Should we have different products to that type of clients and another range to another as well, etc.”
On the other hand, Jeurgen from Två Liljor AB says:

**Jeurgen**: “I have a connection to this company that owns this site you see here, it’s Rudenstams, they are little bigger, it’s also a family company, but it’s bigger (...). And my company is cooperating with this company, we are doing the wine for this company and we are using the winery there. (...) they have the fruit, they have the competence, they have transportation, they have delivery, they have a store here.”

**In analyzing the section above**, we see that two of our sample companies have informal, external advisors, like other family members, in place. For Sven, the parents’ dinner table acts as a type of board, where the business is discussed and where the parents act as consultants giving advice and guidance (parents have business experience in the restaurant industry as well).

Our two firms with the most complicated ownership and family structures are also the ones that have formal meetings with hired outsiders. At Yxhage Lås & Europa Larm AB this happens for the purpose of giving exclusively them advice and to help maintain a structure between the siblings that sends them on a productive path. At Etcetera Offset AB we see that where there is and has been a lot of family involvement, external advice with, in this case, semi-formal meetings is chosen.

In section 2.3.1 we presented how Sarbah & Xiao (2015) give insights into why a neglect of governance is visible in small family firms. They state that when in the initial founder(s) stage, only few family governance challenges would be apparent in the firm, since most decisions would still be made by the founder(s) themselves or by the family in union. As time goes by, things change. This can be observed along the axes of the Three Dimensional Development Model of Gersick et al. (1997), introduced in section 2.2.4. As can be seen in Yxhage Lås & Europa Larm AB and Etcetera Offset AB, with the new generations entering the lead roles and more family members entering the business, the mindset on the future of the firm changes and different ideas are brought in. It is then that a clear family governance structure would lead to discipline among the family members, the prevention of (potential) conflicts and continuity in the business (Sarbah & Xiao, 2015). This is something we see, as presented previously in this section, in our sample firms.

Kaminexperten Sverige AB and Två Liljor AB have entered commercial partnerships due to their small size. We see these as business decisions and not as formal governance structures per se. They felt like they were too small in size to perform certain activities by themselves (anymore), resulting in outsourcing and cooperation/collaboration respectively. We can see that Kaminexperten Sverige AB implemented the external sales force not only for sales purposes, but also for the indirect input they would be giving the company. Therefore, we consider them to be a kind of semi-formal advisors. They are neither exclusively hired for advice like we saw at Yxhage Lås & Europa Larm AB and Etcetera Offset AB, neither are they just giving casual advice in a setting like the dinner table as seen in Company H. We can see from the comment above by Jeurgen from Två Liljor AB that he is cooperating with a bigger firm and using them as a springboard to growth. They are in a symbiotic relationship and each of the companies is gaining advantages from the cooperation. This cooperation acts as a kind of semi-formal advice giving, as each company is helping the other in maximizing their profits and encouraging their growth.

### 4.2.4 Responsibility

In five of our eight sample companies, data shows strong tendencies for a concept of giving up or passing on responsibility to other actors inside or outside the family. Fredrik of Engströms Urmakeri about promoting one of his employees to manage the two smaller stores of the firm:

**Fredrik**: “Because I’m here all the time, that’s why. And we didn’t have it in the Clockmaster stores either until two years ago, but then it was too hectic for me to do everything and I didn’t do it good.”

**Fredrik**: “For the moment, I don’t need anymore. I’m happy what we did, and I’m glad I did it, because then I don’t have to be involved in every small detail and I can do other things that I need to do.”
He shared with us that he trusts her completely and gives her autonomy over the two stores, however, he expects her to come to him if there is an important decision pending. He also shared with us how the decision to give up more responsibility evolved: 

Fredrik: “I think it was coming slowly, because I wanted to make structures in the stores, most for the A6 store, because it's lot of business there. So we started to make the sales staff there, they had different sections they were only in charge of (...). But I needed someone who was more, you know, the helicopter vision of everything. And I didn't manage to do it anymore, I was thinking, maybe I should take in one more person. Then she also can work there and if somebody is sick, it's not the whole problem, so we have a little bit like a reserve person also. So I was thinking with myself maybe for a year before asking her.”

The aforementioned is only to be seen as an example. At Romans Fastigheter AB, Lova & Anders give up responsibility to their right hand, Patrik. More on this can be seen in section 4.2.5 on informality, but shall be mentioned here.

We would now like to analyze the above. In section 4.2.3 we covered how Kaminexperten Sverige AB & Två Liljor AB partnered with external firms to be better able to perform their activities. However, this can also be seen as the owners wanting to give up responsibility. These activities were double-coded by us due to their close relation. We can see that small family firms that are overwhelmed by the management responsibility or cannot handle all the workload give up responsibility, not in the sense of advisors, but actually in the sense of important tasks. These agents can act as advisors but their main task is to lift weight off the owner in running the firm. This seems to be a very important process once firms show some growth. We found it to be the case with Engströms Urmakeri, where Fredrik appointed an employee to be his right hand, giving up control and responsibility to have more time to focus on the overall picture of his firm and to focus on his main shop.

4.2.5 Formality

An area of tension we find in our data is the one of formality and informality. When asked about whether or not they had ever attempted to implement formal structures, Ishwar of S. B. International says:

Ishwar: “Not yet, but I think (...) the time will come. You have to get more stability in the business; everybody has to do that. Because time goes on and you grow and business grows up also, so then you have to put some time.”

Lars of Kaminexperten Sverige AB decided to share some thoughts with us on the topic as well: 

Lars: “What I've been considering is of course having a board in the future. A professional board with maybe two or three external... maybe I can have some kind of advisory board that could be more informal. But on the other hand, that costs a little bit of money; I need to consider that and I think the company as it is today is a little bit too small. I want it to be a little bit bigger first if I should do something. So I think I have the channels now that I need and I won't make any changes from what it looks like right now.”

While S. B. International and Kaminexperten Sverige AB are examples for firms that see the possibility for future formal structures once a certain size is reached, Yxhage Lås & Europa Larm AB implemented one in the past; namely, explicit working instructions. Everyone involved in the firm, employees and owners, signed this. It is also hanging in the lunchroom. They decided on its implementation roughly 10 years ago as a result of inefficiencies and customer pressure, as Mats points out. They intend to adjust and update this paper on an annual basis, although in reality, this happens roughly every 18 months. Mats felt that this paper would not have been needed had the company been smaller. Finally, Romans Fastigheter is an example of a firm that feels like they should have implemented something in the past. Anders shared quite some thoughts on a possible professional board with us:
Anders: “(...) we are not so structured and have the capacity in working as a structure as in a board, yet. So we haven’t admitted us to have that. But we should have done that, I know. (...) Because we more or less have a turnover today of 15 million kronor and the value of the real estate is, say 150 million. So we should really have someone else who is giving some thought on how to handle things.”

Anders: “You have all the figures in place, you have the reporting and everything should run in a way that you can say ‘now we can have a board meeting, now we can discuss this’, but if the figures aren’t there and you don’t really know about this and things like that, you can’t have a professional board.”

Anders: “What we really should have is a board member who is keen on rentability and the cashflow (…).”

In this section it should be noted that three of our sample firms, Engströms Urmakeri, Etcetera Offset AB and Company H have employee meetings taking place. These are also the firms with the most employees in our sample.

If we analyze the above, if we exclude Yxhage Lås & Europa Larm AB and Etcetera Offset AB and if we exclude the formal structure that is the ownership structure, which is also manifested in the firm’s board as explained in section 4.2.1, then there isn’t much formality to go by. What the examples show is that finding the right moment to take formal structures to the next level is a struggle. It seems that the amount of family involvement just as economic and non-economic relevancy of the firm plays a role here. We will work this out further in section 5 in the answers to our research questions. Last but not least, some elements that were attended to in the section before on giving up responsibility, for example that of Engströms Urmakeri, could be connected to this section on formality as well. However, we find that giving up responsibility to certain individuals in the workplace differs too much from the elements covered here to combine them.

4.2.6 Informality

Leaving the arena of formality a little behind, when it comes to informality, we quickly arrive at mutual understandings and agreements, a very common trait in our sample, visible in seven out of eight companies.

Ishwar from S. B. International AB puts it this way:

Ishwar: “Everything in the family business runs mainly on this mutual understanding, so it turns every time, you can’t say this is the principle, this is the rules you have to follow, there is no rules in the family, that’s the flexibility, that’s the good things of the family business, so you don’t need to be bound to some kind of rules (…) or regulations, you decide what you would like to do, you’re flexible to do everything…”

At Romans Fastigheter AB, Lova and Anders have a part-time employee, Patrik, who is also the deputy board member on the legally required board. We can see that Patrik has worked there a long time and is given a lot of responsibility.

Anders: “He had been my right hand during the period when Lova wasn’t working here.”

Anders: “(...) Patrik, he is our third bone and (…) without him we wouldn’t have been able to run everything as we have done today, so he is also a big thinker to us in what we are doing, the planning, the priority.”

Talking about specific housing projects, Anders & Lova continue:

Anders: “He’s running that. We don’t give a thought to that. It’s planned how to restore it and how to secure the quality and everything; he does it. He knows that we should have the high level of quality in everything we do.”

Lova: “Yeah, you can’t say that, because we have a lot of discussion here when you are not sitting here, (…) a lot of discussion here at the office. (…) We do a lot of this planning work and how do we do this (…), what can we do, when are
these people coming to this place. (...) Patrik is a very important person, because he can look over all the buildings and see what is happening.”

Fredrik of Engströms Urmakeri has one manager in charge of the two smaller stores. This manager is given autonomy when it comes to decisions in the managed stores. He shared with us that mentioned manager only asks for permissions when major decisions are to be made.

Fredrik: “And this girl is more creative, has more ideas like that for marketing and stuff like that. So we are a good complement to each other.”

Fredrik: “It’s evolving, yeah, we haven’t write it down like that.”

Malin of Etcetera Offset AB talked about how she and her sister find an agreement before approaching their father:

Malin: “(...) I talk to my sister first, because she is the one who is holding the money. Talk to her first and see what she thinks and then we talk to our dad. But he comes with a lot of propositions also, and my sister, too.“

Asking Malin about her leadership in the firm, she expressed that sometimes she wished that she would be harder on the employees. However, she says that there is a mutual understanding of what should happen in the firm and that there is a vision regarding where the company is heading. She also adds that she very rarely has to decide over the heads of her employees.

**Analyzing the aforementioned**, mutual agreements in small family firms are informal and develop over time. This becomes visible at Engströms Urmakeri & Romans Fastigheter AB. They both employed somebody, but that close interaction grew into something more and developed over time into a rather informal relationship based on trust between owner and employee. Anders and Patrik have a mutual understanding in their relationship how things should run and what should happen at the construction. Anders even says that without Patrik the company would not be what it is today. However, with Lova and Patrik this exists to a lower extent. They meet and discuss the project in detail and they agree together on what should happen. At Engströms Urmakeri, Fredrik and his manager have not written anything down and simply have a clear mutual understanding of what should happen and to what degree she has authority in the decision making. Such understandings between owner and employee also exist between owner and owner. At S. B. International AB we can see that the mutual understanding is between Ishwar and his brother in law and business partner, Kanti. Their mutual understanding is basis for the flexibility of the firm. They also have a clear understanding of what each of them is doing in the firm, for example Ishwar being responsible for sales and marketing. Ishwar believes that without this understanding based on mutual trust, the firm would not function. He is also of the opinion that too many rules would impose bureaucracy, slowing down the business and reducing its flexibility. At Etcetera Offset AB, those mutual understandings are between owner and employee just as between owner and owner.

**4.2.7 Conflict**

Our data shows that seven out of our eight sample companies are not prepared or have structures in place for conflicts or their resolution. The one exception has been presented previously with Yxhage Lås & Europa Larm AB having structures in place if some family member wants to leave the company or if some family member dies.

This is how Ishwar of S. B. International sees problems in his firm:

Ishwar: “(...) Generally the problem solves when you have a good order book. Problems start when you (have a) bad order book; if you don’t have orders then (you have) liquidity problems, finance problems... it creates the whole problem, so it’s better to focus on the root of the problem (...). So if we are having good products, good order books, then we are doing good in business, I think everybody is happy, the family and business also. (...) there is a big risk; if you have a bad time in your business it impacts the family life also.”
Sven from Company H shows some worry about potential conflict. When asked whether or not there was anything in place regulating the exit of an owner, he answers:

**Chris:** “(…) is there anything that says what happens when one of you wants to exit the business?”

**Sven:** “No. (…) I’m a little bit worried about that. Because if we want different things, how do we do? Do they want to (…) buy me out or do I want to buy them out? I mean that’s something we haven’t regulated.”

**Chris:** “So is that something you think you should have done in the beginning?”

**Sven:** “Yeah, yeah. It would have been good, definitely. But you know, you didn’t know anything. But hopefully it won’t be a problem and I think maybe this family thing might help us with understanding the other part. If she wants to run it, okay, that’s fine with me, and if the other one wants to sell, I think we understand each other… and I hope so, but who knows.”

The only company that did employ some kind of problem avoidance or that tackles problems before they arise is Kaminexperten Sverige AB, for whom Lars speaks:

**Lars:** “But I do have some external advisors. One of them is of course my (…) auditor. Actually I changed that person about a year ago and that was because I wanted one that is more pro-active, that can give me the help before I get to the problem, if you understand what I mean. She will move proactively actually, so that is why I changed that.”

Malin from Etcetera Offset AB gives us great insights into how their family is currently handling the uncertainty of succession and how it could turn into a large conflict:

**Chris:** “So do you think that could evolve in conflict?”

**Malin:** “Oh yeah, of course! But that’s how my dad had told all of us, that if you’re not in the company, you don’t get anything. And it’s very though my sister and I we were thinking of how to compensate my brothers, but my parents have a house that they are going to have, the house at home that is. So they are compensating it somehow.”

**Chris:** “So it’s not an ideal setup?”

**Malin:** “Oh no. No, no, no. This is a typical family thing when, but we are in the process of talking and seeing how to do it the best way. The best way also to not pay too much taxes (…). It’s just that we are trying to do it as smoothly as possible, but we don’t actually know exactly how to do it.”

When asked why they have not implemented a structure that would take care of a satisfactory division of assets, Malin replied this:

**Malin:** “(…) my sister and I have been thinking about it long time (…), we have started to talk about it maybe 2 years ago or something.” But now “this with the company came quite fast when my dad decided ‘no, I’m going to stop’.”

**In analyzing this section**, we see that small family firms have a tendency to postpone conflict and to turn a blind eye to them until they occur. We can also clearly connect this to our elaborations on conflicts in family businesses in section 2.2.5 of our literature review, especially in relation to the elaborations on the work of McKee et al. (2014). We can also see that these conflicts can be discussed years before and be known to them, but when it comes to making a clear and conscious decision, they show trouble in going through with it. Firms procrastinate on issues that have a direct impact on the family dynamics. They have a good idea about there being something that could cause problems for the firm and for the relationship between them but they decide not to act upon it. This could go smoothly as long as there is unity and a lot of family firms believe that this could go smoothly forever. Ishwar from S. B. International AB and his elaborations emphasize this. We believe this to be naïve and dangerous, especially since he acknowledges that the family could be affected negatively. Sven of Company H shows not to be as naïve and talks about possible problems arising if the business would be sold or one of the owners would like to exit the business. Even though he recognizes that there could be problems arising, those are postponed to a later stage, as they do not want to take responsibility or action and hope that things will turn out well. This is what McKee et al. (2014) describe as conflict avoidance. Sven and his sister clearly see that some type of conflict could arise, but rather avoid facing it for the benefit of short-term harmony between them. Lars of Kaminexperten Sverige
AB is more proactive and decided to change his previous auditor because he was not satisfied with their input. He changed it to one who shows more initiative. Lars wants to solve problems before they arise, and he is proactively pursuing that.

At Etcetera Offset AB we can see that the family is facing a tough decision on how to split the company assets of the family between the working sisters and the non-working brothers, while at the same time still involving the parents. They brought in external help and advice to aid them, but it has not helped much as of yet. This third party intervention stands in relation to the work of McKee et al. (2014), which, when used properly, is one of the best methods of managing conflict. At Yxhage Lås & Europa Larm AB, they have used it better. As we have shown in section 4.2.3, we can see the element of third party intervention when it comes to conflict management between the siblings.

4.2.8 Succession

Ishwar of S. B. International has one daughter. His brother in law, Kanti, has children as well. Ishwar says:

**Ishwar:** “It’s not always that you have to take them into the business, because it is their lives. (...) If they don’t like this kind of stuff and they are made for something different, then we can’t push them to come in. It’s free.”

Although he would, as he says, love for them to take over the business eventually, he advocates the mindset shown above. This is a very common trait throughout the interviews we conducted.

When asking Lars if he intends to keep Kaminexperten Sverige AB in the family, he answers the following:

**Lars:** “No, I won’t do that. I’ve already done that trip with my family, with my parents and my brother, so I will not do that again. (...) my children, they should make their own decisions, they should get the real good education and they should work somewhere else and if they want to do their own business in the future, I would be happy to help them both with my competence and also with finance, but I don’t want to put them in this place if that is not what they really want.”

Malin of Etcetera Offset reinforces this and expresses:

**Malin:** “I think they should do whatever they want to do, I think my work has given me a lot, but if they want to do something else, I can’t force them.”

Although not every one of our sample firms needs to think about succession imminently, there is not one respondent that has expressed an opposing viewpoint to the one presented before. Six of the businesses we interviewed have a relatively simple ownership and family structure. Their options for divesting of the business are therefore limited. However, when the ownership and family structure is more complicated, as is the case at Yxhage Lås & Europa Larm AB, things quickly get more difficult, as Mats illustrates:

**Mats:** “It’s hard, just my son works here, two of my siblings don’t have own kids, my oldest brother has three kids doing totally different things... so I don’t know how we are going to solve it.”

**Analyzing the above section** is very interesting. Although not being after succession specifically, we were aware of that having plans for it is an element of governance. The one common thread we found in our focus companies regarding succession is that there is none.

Ishwar of S. B. International, in the very first interview conducted, put us on a cultural track in looking at this phenomenon. He and his business partner, his brother in law, have emigrated from India and then started their family business in Sweden. They both come from backgrounds in which family businesses are ubiquitous. While he explained to us how he was brought up in such a culture where it is expected of children to continue in their parents’ shoes, Ishwar shared his experience of Sweden, where he felt the culture was more individual. Anecdotally, he spoke about whom he and his brother in law bought the company from. He shared that they bought the firm from a Swedish businessman, who was close to retirement, without anyone from his
family willing to take over it, although he had children that could have potentially done it; the concept of the firm being sustainable.

We have shown data above that very strongly supports the notion that a cultural change has taken place and that succession in small family firms should not be a de-facto expectation that the next generation is to take over. While it may have been the case previously in small Swedish family businesses that parents were not giving their children a different choice than to take over the business, the current parents do not want to do this, seeing it as a mistake. Kuratko (1993) presents some research regarding such cultural differences. This connection may be far-fetched though, as he researches succession in U. S. and Korean firms. However, Baù et al. (2013) do show, as presented in section 2.2.7, that culture is one of ten succession issues one should be aware of when working with it, but only refer to family roots or tacit knowledge that could be passed on to successors. We live in a generation in which parents in our sample firms have an attitude that puts a primary focus on their children's education, happiness and their free choices. The numbers we have previously presented that indicate that high numbers of family firms in Sweden have no documented succession plans in place is reinforced by our data. However, we would like to remove the negativity that usually comes along with the presentation of these numbers, when words such as lack or deficiency are being used. Not predetermining succession in small family businesses is an active choice. A choice to not put any strain on the owner's children and the mindset that other ways of dealing with the business once the owners decide to leave it behind are just as acceptable. This counts especially for those firms that have few owners and little family involvement besides the owners. Keeping alternatives open is important to the firms. Although we did find the slight link shown above, research on succession does not focus on cultural peculiarities. This is underlined by our section 2.2.7, which gives an overview of succession in family firms. There, we also mention the work by De Massis et al. (2008), who look at factors preventing intra-family succession. Our findings led us to take a closer look at their model and its elements, however, this factor seems not to be found by them in their extensive literature review and therefore did not make its way into their model. The possibility that intra-family succession wants to be avoided does not find merit in their work. We believe that this factor would be suited to expand their model. There is certainly merit for further exploring this (cultural) view in a grander research setting. This is also to be seen in connection to owners having made bad succession experiences themselves in the past that influence their decision-making regarding future succession. However, this last point sees at least some coverage in literature. Lars of Kaminexperten Sverige AB talked about his experience and regrets of not further exploring his boundaries and working somewhere else when he was younger. This is in line with Stavrou & Świercz (1998), who note that successors should only join the firm after discovering their own interests and exploring where their boundaries and abilities are situated. Their capabilities should be tested and they should see if their goals are in line with working in the family firm (Stavrou & Świercz, 1998).

4.2.9 Discussion & Conversation

Discussion and conversation take place in any firm. How do they look like in our sample? Lars of Kaminexperten Sverige AB about conversations regarding the firm with his wife:

Lars: “(...) it's very informal, it's very informal, but of course it can be very simple things, it could be just 'how was your day at work', that's what it is all about actually. And of course once in awhile it can be a bigger issue, maybe discussed a little bit more deeper.”

Fredrik of Engströms Urmakeri about conversations with his father, who passed the business on to him:

Fredrik: “Oh, when we talk, when he comes here he asks, 'how is it going' and then I update him.”

Jeurgen of Två Liljor about discussions with his wife, who is a passive owner in the firm:

Jeurgen: “(...) when figures will come up you can discuss that and the figures will talk what you are doing and so on. When we are spending costs and we are investing then we of course are talking about it, because it's our money from us both.”
Jeurgen: “And then also on the phone in the weeks she’s asking ‘what have you done today’ and I say something, and I ask for an advice from her and then we have a discussion, so that’s very simple.”

At Etcetera Offset AB, Malin shared with us that she and her sister prefer to discuss the business at home, as they do not get easily distracted by the business in that setting. At Romans Fastigheter AB it is the other way around. There, Lova shared with us that she prefers the business setting, as there all the information necessary for discussions is readily available. At their firm, also a unique way of communication has evolved in the form of e-mails:

Lova: “(...) We have said that we email each other mostly.”

Lova: “(...) We have tried a lot, can we have meetings here, but it doesn’t work very well always. But we try to e-mail, because then you don’t lose the questions. Then you can go and see what it is and that can be a lot of things. I mean it’s not simple things; it’s more that you want to show, I want to show Anders something, I can send it by e-mail.

Analyzing especially this last point, what Lova describes could qualify as a hybrid arena, as introduced by Nordqvist (2012) and written about in section 2.3. As she noted, they tried a lot to make their discussions and meetings as fruitful as possible, but they found this version to be one working particularly well for them. If we look back, hybrid arenas emerge as the result of attempting to break out of daily routines and the constraints that come along with it. In addition, informality is usually increased, even if formal elements are still featured (Nordqvist, 2012).

4.3 Summary of Findings

In the previous sections we have presented our findings in nine different categories, each of which was followed by a short analysis. We opted for this instead of having a section only dedicated to findings and a section only dedicated to an analysis or discussion, because we think that the chosen way makes our work more comprehensive, content-wise and structure-wise. Nevertheless, we think that summarizing the categories or key themes is important at this point. We do this below in table 3.
### 4.2.1 Ownership & Board
All Swedish companies are legally required to have a board. So are small family firms, in which this usually only exists on paper and is hardly used. More importantly, the ownership structure is actively thought about and designed with the business in mind, having far-reaching consequences and constituting the dominion of power between owners. We were able to connect to theory that firms are governed by perceived fairness and that family governance is important to larger families.

### 4.2.2 Holding Company
Holding Companies are set up in small family businesses for financial reasons and/or when the firms have other assets belonging to them besides the actual business. It becomes problematic e.g. when family members would like to liquidate those assets for personal reasons or when passive owners in the firm demand their share of the non-business assets (to be paid out).

### 4.2.3 Advisor & External Help
This comes into play when firms and their owners cannot handle the workload anymore or need advice regarding decision-making. We found advisors to be informal, semi-formal or formal coming in forms of e.g. family or consultants. We could connect to theory how governance challenges become visible with the business growing in size and family, and moving along the family, business and ownership axes. The governance challenges are then acted upon with advice and external help.

### 4.2.4 Responsibility
Some small family firms do not employ advisors but rather give control and responsibility away altogether, inside or outside the family. This is very similar to advisors, but instead of advising the firm or owners, these individuals have certain autonomy to create and make decisions without the input of the owner(s).

### 4.2.5 Formality
In small family firms, formality stands in a tension field to informality. Formality, as in formal structures, is often not present because firms perceive themselves to be too small. Only two of the sample firms have explicit formality in place, both of which also have a high degree of family involvement in the firm. Besides this, also economic and non-economic relevancies seem to play a role.

### 4.2.6 Informality
In small family firms, informality stands in a tension field to formality. It describes the informal relations between owners or between owners and a third party, e.g. an employee. This can create a strong bond between owners and employees and impact how the firm is governed. With prevalent informality comes mutual understanding and trust.

### 4.2.7 Conflict
Only one out of eight small family sample companies employs some kind of conflict prevention. In the other firms we find the themes of conflict avoidance and third party intervention, which theory supports. Key words in this category are postponement, naivety and worry. However, examples for conflict were still scarce, which might be due to cultural matters, bonding and mutual understandings that somehow counterbalance the small conflicts arising from everyday interactions between the owners.

### 4.2.8 Succession
None of our small family sample firms has a plan for succession in place. We find this lack to be intended, based on a novel mindset regarding succession, in parts based on the beliefs and previous experiences of the owners that do not want to force their successors into unwanted roles.

### 4.2.9 Discussion & Conversat.
Discussions and conversations in the small family business setting are heterogeneous and happen in diverse arenas; in one case a connection to theory with a hybrid arena could be drawn. Discussions occur at home, at work, in the car or even on vacation, depending on the owners, their personality, workplace or surroundings. Conversations can take place along the spectrum of formality and informality.

Table 3: Summary of Findings
Those nine categories or key themes evolve from the field and hold up individually. Their one common connection is governance in small family firms. However, the individual categories also have some connections among each other, some stronger than others. Sometimes those connections are rather direct, sometimes rather indirect. We will now give some examples. As already mentioned, formality and informality stand in such a relationship, a field of tension to be more precise. They could also be displayed along a continuum, but can also co-exist and appear in parallel. Formal and informal elements can appear in a firm. The two categories ownership & board and holding company also have an obvious relationship, as the property situation in the holding company is closely connected to the one in the company in question. Also the categories advisor & external help and responsibility go almost hand in hand. They are located in the same spectrum of governance, just on a different wavelength. What connects them is that trust is a central theme in both. While advice is given and input goes towards the owner, in giving up responsibility the owner lets go of some control. A final example is the connection of the categories conflict and succession, as succession is a center of conflict in its essence. Before, during and after succession, conflict can arise.

What we make of these categories and their connections can be seen in the next section. Also, section 5 and in parts section 6 will continue analyzing and discussing our data and findings. What became clear in this section is that we have a mixture of findings that confirm existing theory and data that questions existing theory or simply seems not to be catered to so far. For the former, the literature was now reactivated in these findings. For the latter, the following sections will be, in parts, concerned with.
5. Answering Our Research Questions

In this section we plan on answering our main and our two sub-research questions (5.1 – 5.3) while continuing to showcase our findings, as this goes hand in hand with answering our research questions. In addition, we will illustrate in a figure the influencing factors for implementing formal governance structures that go beyond the legally required.

5.1 Answer to Main Research Question

The main research question we intended to answer was:

*What is governance characterized by in small family firms?*

What we find in our data itself and after analyzing it is that governance per se is always present in the small family firms we researched. However, this is often not present in a formal matter that literature recognizes as such. Nevertheless, some connections to previous literature and theory could be made; such as the perceived fairness family firms are often governed by, as shown by Baù et al. (2013). Another example is that we were able to connect some elements of succession regarding the owners' own development, but added the cultural emphasis and a new succession mindset in Sweden. Another example regards conflict, in which we could connect to conflict management strategies, especially when it comes to avoidance and third party involvement (McKee et al., 2014). The point is that although we do find some elements in small family firms that are previously known, many other elements are not or are not covered in detail in literature. Section 4 gives the complete overview.

What all our sample firms have, as they are all Swedish businesses of the same legal form, is a board. However, this is hardly used as such except for when taking care of the annual accounts. This is something we have presented in section 4. In fact, all nine categories of section 4 characterize governance in small family firms. Summarizing those categories, governance in small family firms is rooted in informality that stands in an area of tension with formality. Ownership is actively thought about when setting up the firm regarding the individual needs of the firm, which is manifested in the largely obsolete boards. Holding companies can be used when the firm holds other assets like real estate. Advisors and external help are used when the expertise or resources in-house are not sufficient. In the same manner, responsibility is given away. Conflict and succession are usually not being catered to, with succession this being an active choice. Overall, discussions and conversations shape the interactions in the businesses. The individual categories naturally show to be more distinctive in some small family firms than in others.

What should be added is that governance is unique in every firm depending on their setup and depending on the challenges the firm is facing or has faced. We find that they also show to be creative when it comes to finding structures that suit their needs and that it is the specific family that decides on their governance structures, although often not knowing that others might label that as governance. Although specific structures of corporate governance, as shown in section 2.1 of our literature review, cannot be applied to small family firms, the general ideas of corporate governance can and show that this is still where governance in small family firms has its roots. Cadbury (2000) says that formal organizational patterns are needed when confusion arises or when cracks form in the structure of a firm that is experiencing growth and where decision-making shifts. Our findings are also in line with Gabrielson & Huse (2004) when stating that there is no governance structure that is universally beneficial to any firm. We can also agree that social, cultural and institutional factors, among others, have a significant influence of these structures (Doidge et al., 2007). On a par with our findings, Goel et al. (2014) argue that due to family firms heterogeneity, governance issues (structures) vary strongly among them.

In all of our research questions we are inquiring about small family firms. In section 2.2 we elaborated on what the European Commission (2016) defines as small and micro companies, with our intention to remain within the boundaries of what defines micro firms. We have to admit that Enströms Urmakeri does not count as such, but rather as a small firm when this definition is followed and that Etcetera Offset AB and Company H both employ two people too many to fit that definition. However, we find this slight deviation to not be of relevance and allow ourselves some flexibility in this regard.
In section 2.2.3 we argued how such economic figures might not be suited to define what a small family firm is when checking from the governance perspective. We could argue that once a family firm finds itself forced to implement formal governance structures, it is no longer a small family firm. This would then be the case for Yxhage Lås & Europa Larm AB just as for Etcetera Offset AB. Both firms are either in the process of transitioning into the second generation or have already arrived there and have a family ownership structure that requires them to operate with more formalized structures than the other firms in our sample. In this regard it appears that the structures a company puts in place are, at least to some extent, detached from economic figures and it is not (solely) a question of size that decides over a company’s structures. It is rather rooted deep inside the family & its members and how the family business is set up. Metaphorically speaking, the actual physical size of a fish in an aquarium does not tell us how much space in the aquarium is required for other elements necessary so that the fish can stay alive and prosper. While a family firm might not have many employees or a large turnover, other elements might make it larger than it first appears. Section 5.4 will pick this up in more detail. It seems like we have, to a degree unconsciously, also studied what can be considered a small family firm. We will provide some concluding thoughts on this in section 6.

5.2 Answer to First Sub-Research Question

The first sub-research question we intended to answer was:

*Why do small family firms (try to) implement governance structures or choose not to do so?*

Only two of our sample companies implemented formal governance structures that literature recognizes as such and that go beyond the legally required. Those were Yxhage Lås & Europa Larm AB and Etcetera Offset AB. At the former they did so because they needed improvements in governing themselves among the siblings and because the economic figures were not satisfactory. At the latter it is partly a grown structure and partly a need of mediation between the sisters and their father. The other companies could only give us indications why they, at a certain point in time, would consider such implementations. However, as we have shown, governance in small family firms takes up different forms like giving up responsibility or entering cooperation with other firms. It was common in our sample that actions were taken as a result of workload increasing beyond what could be handled with the current resources. They therefore implement governance structures out of need. Out of need for structure in the firm between the family owners or when the firm is expanding and they need some kind of agreement/structure of what happens when a certain situation materializes.

Our data shows that small family firms choose not to implement governance structures for multiple reasons. They often find themselves too small to warrant (further) governance structures. In addition, financial restrictions apply. It is costly to maintain, for example, a board, or to hire external advisors. This often goes beyond what small family firms can or want to handle financially. Interestingly enough, besides these two reasons, we also found evidence that some firms had the intention to remain small. They want to keep the business close to them, know every employee that works for them and have relationships with every single one of them. It was also expressed that business was done because it was fun and they enjoyed doing it, something they feared might fade away with increased size.
5.3 Answer to Second Sub-Research Question

The second sub-research question we intended to answer was:

*How do small family firms implement governance structures that are appropriate for them?*

Admittedly, when looking at the data that has ultimately been collected, this is the research question we have the least data for answering. This is also due to the uniqueness each firm has, which is why we opted for the formulation *appropriate for them* in the first place. Due to these variances we did not discover exactly how small family firms implement these structures. Each firm has a different method of implementation and how they react to different situations. Nevertheless, we are going to use this data to try to give an answer.

We see that the implementation of governance structures is based on a lot of conversations and discussions among owners and their confidantes that they are looking to get advice from. Out of these decisions then grows a structure that could later develop and form into a formal governance structure. However, this does not mean that firms cannot take formal structures and adapt them to their unique structures. The *how* comes into play when the firms’ owners find themselves confronted with a new situation (which may have slowly developed). Often this is not forced upon them but rather self-beneficial. They do not implement governance following a generic process. It is an evolving process. They start having a realization that they should change something to improve their situation or the one of their business and then slowly work towards a new or improved structure. In this regard, caution is an important theme; no radical, but rather incremental change towards new structures can be observed. The owners in our sample firms reflect strongly and select cautiously before deciding on a change. The main trait in thinking also does not go out towards *what* can help them best, but rather *who*. In that regard, as mentioned, each firm in our sample has a governance structure that is completely unique to that specific firm, there is no one model that fits all.

5.4 Factors Influencing Formal Governance Implementation

We decided to visualize our findings regarding the implementation of formal governance structures in the illustration below. It is about *that* formal governance structures are implemented and not *which* ones.
Figure 4: The Funnel of Governance
On the top, we can see all 19 owners of our sample firms and their respective shares in the companies. The capitalized $A$ or $P$ represents whether this ownership is active or passive. The hammer in the top right corner illustrates that this ownership structure is not always set in stone, but has sometimes been subject to alterations in the past and may be subject to such again in the future. All of these firms then enter the funnel, in which eight factors have an influence on how the firms pass through the funnel and whether or not they implement formal governance structures. These are:

1. The market in which the firm is active. If relatively few but large customers characterize this, small family firms are likely not to implement formal governance structures. Here, the type of the business is also of importance.
2. The generational stage of the firm. The earlier the stage is, the likelier it is for small family firms to not implement formal governance structures, as structures have not grown on them yet.
3. The quality of the relationship the owners have with each other & the level of trust they have for each other. The better the relationship and the higher the trust between the owners, the likelier it is for small family firms to not implement formal governance structures. In that sense the company is a physical representation of the owners' relationship with each other.
4. The size of the firm. The smaller the firm is economically and the smaller the economic responsibility of the firm is, the likelier small family firms are to not implement formal governance structures.
5. The culture the owners have been exposed to in their lives. This is to be seen especially in regards to succession structures and then to the country the business owners are influenced by culturally. In Sweden, it is likely for small family firms to not implement formal governance structures in this regard.
6. The amount of owners. The smaller the amount of owners is, the likelier it is for small family firms to not implement formal governance structures.
7. The amount of active owners. The fewer active owners are involved in small family firms, the likelier it is that they do not implement formal governance structures.
8. The power dynamics in the firm. This describes the distribution of power in the firm, independent of official ownership and voting shares. An example shall illustrate this. At Etcetera Offset AB, Malin’s father has 51% of the ownership shares, however, he would not make a decision that his daughters disagree with, although he could. We could speculate that where the power dynamics allow a decision to be made in a small family firm with the disapproval of an active owner, formal governance structures are put in place. This would hold true for the two firms in our sample that have implemented formal governance structures and even for Romans Fastigheter AB, where Anders stated that they should have done so in the past.

This order is not to represent a rating or hierarchy in relevance. Also we would like to stress what we stated in section 6.1, which is that all firms have informal governance structures, but some implement formal ones as well. This illustration shall help in understanding why. Speaking metaphorically, the firms have a larger mass to put through the funnel in certain aspects, making them an easier “target” for formal governance structures. The ones having a larger mass in one aspect are therefore also likelier to be “hit” by other aspects. Simplified, the funnel dispenses the firm into two directions. To the left are the firms without formal governance structures, whereas to the right those firms with formal governance structures can be found. The minus and plus signs are supposed to represent exactly this and not judge whether this is negative or positive. Romans Fastigheter AB is still caught in the middle between both sides. On the one hand it is recognized that this firm fulfills the requirements for further governance mechanisms, while on the other hand the owners have not followed through on this (yet). Depending on the individual firm, different aspects may be more decisive than others and have a stronger impact than others on the small family firm’s decision to implement (further) formal governance structures. This could also be exemplified by Romans Fastigheter AB, where the aspect of economic size plays a very strong role, as the firm has reached a size where they are responsible for real estate of quite significant value (roughly 150 m SEK), as Anders pointed out, and therefore also responsible for the housing of a large amount of people.
The individual setup for our sample firms becomes visible in the illustration. To better understand how we understand what we described above, we would like to play it through for two companies, S. B. International AB and Yxhage Lås & Larm AB.

**S. B. International** is (1) active in a market with relatively few, but large customers. The owners are (2) in first generation. Ishwar and Kanti have (3) a very good relationship based on a high degree of mutual trust. The firm falls under the definition of a micro firm by the European Commission (2016), (4) making it relatively small in terms of economic figures. (5) Culturally, although influenced by Indian business making, they do not intend to put structures in place for their children to take over. The (6) amount of owners is two, hence low, which is also the (7) amount of active owners. Last but not least, (8) the power dynamics inside the firm do not allow a decision to be made without the approval of an active owner. In sum, all of the eight aspects are indicative of suggesting that no formal governance structures are needed to be put in place, as was the case.

**Yxhage Lås & Larm AB** is (1) active in a market with many, but usually larger customers. The owners are (2) in second generation. The siblings have (3) good relationships with each other and trust in each other, although they used to question each other’s authority in the past. The firm falls under the definition of a micro firm by the European Commission (2016) on economic figures, although only barely, (4) but still making it relatively small. (5) Culturally, they are influenced by Swedish customs, but hardly show a succession mindset as their structure is perceived to be too difficult for such endeavors. The (6) amount of owners is four, hence relatively high for our sample, as is the (7) amount of active owners. Finally, the (8) power dynamics inside the firm allow a decision to be made without the approval of not only one, but in case Katharina is one of them, even two active owners. In sum, aspects (1), (2), (3) are slightly indicative, and aspects (6), (7) and (8) are strongly indicative of suggesting that formal governance structures are needed to be put in place, as was the case.

Although in the illustration we have put our sample companies, any other small family firm could be positioned there, as we believe that it is the same factors that play a role in suggesting whether or not formal governance structures are likely to be put in place. As stated in section 1.3.3, Gersick and Feliu (2014) request that monetary, law, business and family variables and how those influence governance in family firms needs to be further developed. With this section we contribute.
6. Conclusion

In accordance to our purpose, we have openly explored the field of governance in small family firms and its implementation and reduced the gap in theory regarding this, but also opened up the floor for future research (see section 6.2 below). We entered the process of this thesis and were confronted with confusion, mainly about definitions. We were unhappy with the way previous literature handled the definition of small businesses and consequently small family businesses. We therefore went into the research with what the European Commission (2016) defines as micro firms and added the family involvement to it. We come out of this research with a more refined version that actually adds governance to it implicitly. We have reasonable suspicion to say that once a family firm sees it as necessary to implement formal governance structures, as literature knows them, then they depart from being small family firms through the eyes of governance. Hence, for us, the sample firms Yxhage Lås & Europa Larm AB and Etcetera Offset AB would not fall under the definition of small family firms anymore, and Romans Fastigheter AB would be on its way towards exiting that field as well.

We partly motivated our research by showing how governance in small family firms was understudied with characteristics not well defined, that governance issues varied strongly among them (Goel et al., 2014), that a “lack” of governance may be intended and that structures fitting large publicly listed firms may be incompatible with small family firms (Nordqvist et al., 2014; Corbetta & Salvato, 2004). We therefore set out open-mindedly with a Constructivist Grounded Theory, inspired by Kathy Charmaz, to explore this field. Following our literature review we had a tendency to believe that small family firms are very diverse and that they would differ quite significantly from each other. We thought that with the limited time and resources we had, choosing this grounded theory would enable us to open up the field of small family firm governance through the discovery of key themes, allowing us to capture the diversity and dispersion in the field and to have findings & conclusions of the kind that we have now. Having eight sample firms with ten interview partners only made it possible to see the various directions small family firms take (or can be taken) and only through researching firms of different economical size on that scale were we able to see what matters and what does not. We were then able to show which theories from the corporate governance field and from the field of governance in family firms can actually be applied to small family firms.

As speculated in our background, it is that governance, as it is known in literature, is not present in many family firms simply because it is not beneficial to them. Towards the end of our research we are now certain that a differentiation between governance and formal governance is necessary. Every small family firm has some form of governance, but not necessarily formal governance. This can be knowingly or unknowingly and can exist in varying forms, as we have seen. We have shown nine key themes. Small family firms actively use their ownership structure and are legally required to have a board, although this usually only exists on paper. A holding company is sometimes in place, so are informal advisors. Formal advisors enter in firms with a more complicated structure, in our case those two firms for which we have argued in the paragraph above that they may not be small family firms. Responsibility is given away when the workload overwhelms and small family firms find themselves in a tension field of formality and informality. Conflicts are hardly handled anticipatory and succession plans are left open as an active choice. Again, governance is visible as a first step. The next step would be formal governance, which is recognized as such in literature.

With our work, we are making multiple contributions. We empirically contribute to the literature on small family firms by introducing corporate governance logic to it and by seeing to what extent it holds up. We also contribute theoretically by investigating governance concepts in another context, namely the one of small family businesses. We showed that especially corporate governance is too narrowly defined and that there is more to say when the context is broadened. In presenting and analyzing our findings, we mainly show two things. Firstly, some findings confirm existing theory. In that way we contribute in fragments to the theoretical context that we are operating within. Secondly, some findings question existing theory or cannot be found therein at all. By asking not about governance or the concept of it, but about the manifestation of governance, we contribute by opening the field to more diverse explanations. We contribute by questioning too rigid definitions and by showing their arbitrariness.
6.1 Limitations

Several limitations of different severity apply to this research. In this section they shall be presented. In section 3.6.2 we noted that we did not get access to every company we would have liked to get access to, which was due to language barriers, disinterest or time constraints, at least as far as we suspect. Hence, we do not know anything about the firms and possible interviewees that we were not able to speak to. Many of the small firms we contacted or tried to contact also have amateurish websites, if any at all, which makes approaching them and gathering more information about them, like finding out whether or not they are family firms, rather hard. Regarding the mentioned language barrier, some limitations may result from this as well. Although we did feel confident that the level of English present during the interviews was proficient enough so that our respondents could express what they wanted to convey, even richer data may have been able to be acquired if the interviews were conducted in Swedish, our interviewees' native language. However, as we as researchers do not speak Swedish, this was not possible. We can also not claim that we would have been free from translation errors then, but this is only hypothetically. Regarding our interviews, it is hard to build a trusting relationship between interviewers and respondents when only meeting with them once. Although offering anonymity, which was chosen by only one interviewee, our interviewees might have been even more open with us had we a longer lasting relationship with them. Limitations also apply as this study was conducted in a small region of Sweden. Therefore, geographical transferability to other regions or countries may be difficult. In addition, time constraints limited our study to be cross-sectional instead of longitudinal and had an influence on our sample size. Here it should be stated again that our findings do rely on a rather small sample, making it hard to achieve transferability.

6.2 Future Research

Our study helped in further developing the field of governance in small family firms. However, we still see great potential in this understudied field. For example, the impact culture has on governance in small family firms would be an interesting area for further contributions, as we were not able to compare our Swedish findings to other regions or countries. In section 3.4.1 we stated that our heterogeneous sample is useful in research that aims at developing key themes. We have accomplished this and opened up the floor for future contributions. In a next step, choosing a homogenous sample or multiple homogenous samples to enable in-depth research and to investigate whether or not our findings hold up would be desirable. This stands especially in relation to our funnel of governance, as introduced in section 5.4. Also, we encourage a longitudinal study, possibly with a larger sample size, to specifically look at how formal governance implementation is accomplished. We hope to be an inspiration in these regards. Finally, a coherent framework of governance in small family firms is missing. We believe that with our work, we have directed an effort towards accomplishing such a framework. It is on future researchers to continue in this endeavor.
References


