Hanna Maria Sievinen

ROLE OF THE BOARD OF DIRECTORS IN THE STRATEGIC RENEWAL OF LATER-GENERATION FAMILY FIRMS

ACTA UNIVERSITATIS LAPPEENRANTAENSIS 961

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Abstract

Hanna Maria Sievinen
Role of the board of directors in the strategic renewal of later-generation family firms

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While focusing on tradition and continuity can offer advantages for family firms, it can also incite complacency, making a strategic renewal challenging. During periods of strategic transition, the members of the board of directors can play a significant role in a company's decision-making. In later-generation family firms, the owners often participate in a family firm by serving on the board while non-family board members are appointed to advise management. However, there is still a limited understanding of how the members of the board of directors influence the strategic renewal of a family firm.

The first section of this dissertation provides an overview of its theoretical basis, methodological aspects, results and conclusions. The second part comprises four published articles forming the empirical base for the results and conclusions.

The study adopts a qualitative research approach to offer a unique lens for understanding the dynamics of the members of the senior-most decision-making body of a firm—the board of directors—during a family firm renewal. It makes several contributions. First, this study provides evidence that by properly timing their influence, owners can act as a resource and help to trigger change. Second, this study demonstrates how the role, content, intensity and locus of non-family board members' advice can evolve during the renewal process. Third, it demonstrates that the informal dyadic interaction between the non-family CEO, non-family chair of the board and family firm owners can offer the chair and owners privileged access to influence the content of board decisions.

In addition to its theoretical contributions, the study provides practical recommendations for those involved with family firms attempting a strategic renewal.

Keywords: board of directors, board process, family firm, strategic renewal

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Furthermore, without the support of my family, completing this dissertation would have been far more difficult. As such, I would like to thank my mother and my late father for encouraging me in taking up challenges and demonstrating Finnish 'sisu'—a combination of guts and perseverance. My brother, in turn, has played a key role since my childhood in instilling in me the aspiration of looking beyond the surface and appreciating scientific knowledge. Finally, during this research process, my spouse, the best I could ever have wished for, has been unwavering support for me. Your continuous encouragement and belief in me have meant more than you can know.

Hanna Maria Sievinen

April 2021

Espoo, Finland

To my family.

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I. Sievinen, H. M., Ikäheimonen, T., & Pihkala, T. (2020). Strategic renewal in a mature family-owned company – a resource role of the owners. *Long Range Planning*, 53(2), 101864.
II. Sievinen, H. M., Ikäheimonen, T., & Pihkala, T. (2020). The advisory role of non-family board members: a case-based study of a family firm. *Journal of Management and Governance*, 24, 871-903.
III. Sievinen, H. M., Ikäheimonen, T., & Pihkala, T. (2021). The role of dyadic interactions between CEOs, chairs and owners in family firm governance. *Journal of Management and Governance.* Published first online 12 January, 2021.
IV. Sievinen, H. M., Ikäheimonen, T., & Pihkala, T. (2020). Owners' rule-based decision-making in family firm strategic renewal. *Scandinavian Journal of Management*, 36(3), 101119.

Author's contribution

I was the corresponding author in every publication, which indicates my leading role in the co-authored publications.

I developed the overall research design and conducted the data collection, including coordinating and performing the interviews and data analyses. The literature reviews and conclusions were written solely by me in publications III and IV, while in publications I and II, selected subsections of the literature review were partly co-written with other researchers after I had written the preliminary versions. The publication processes, including the responses to reviewers, were managed by me. However, it should be acknowledged that in all publications, other researchers reviewed my analyses and interpretations in addition to providing guidance at several research stages.

1 INTRODUCTION

The objective of this section is to introduce the research background, objective, literature gaps and research questions. This section also provides an overview of the dissertation's structure and the articles forming a key part of this dissertation, as well as key definitions and scope of this research.

1.1 Research background

Family firm: '*A business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations or families*' (Chua et al., 1999, p. 25).

Views on the exact magnitude of the economic and social contribution of family firms vary depending on the source and definitions used. However, their role as a backbone of the entrepreneurial economy remains undeniable. Family ownership is particularly common among private small and medium-sized firms, but many of the large listed corporations can also be defined as family firms (Bammens, Voordeckers, & Van Gils, 2011). In the US, family firms are estimated to account for 29% of the GDP and 27% of employment (Astrachan & Shanker, 2003). In Europe's European Commission (European Commission, 2009), family firms are estimated to account for more than 60% of all businesses and 40–50% of employment. However, European studies on family firms' role have demonstrated a large variance between the countries. These differences may partly be attributed to differing definitions of a family firm, given the disparate legal systems and cultures, as well as definitions of a family (Harms, 2014) and measuring techniques and differences in the size of the public sector (Finnish Family Firms Association, 2017).

Historically, data on Finnish family firms have been scarce. The first study of national scope was published only a decade ago (Tourunen, 2009), followed in 2017 by research steered by the Finnish Family Firms Association as a part of the European Union COSME project. Both studies contributed to understanding the family firms' role in the economy and identifying common concepts and methodologies related to family firm research. The studies suggested that family firms in Finland represent a significant economic force for value creation and employment. It is estimated that in Finland, family companies represent 30% of the total business sector[1] value added and 37% of the business sector number of personnel (Finnish Family Firms Association, 2017). Such data-focused studies have provided a much-needed platform for building further insights into the definitional issues of family firms (see, for example, Harms, 2014) and family firms' role

[1] The business sector definition does not include all businesses, as the households sector includes businesses where household and business activities cannot be separated. These businesses typically focus on agriculture, forestry and fishing (Finnish Family Firms Association, 2017).

in society. However, they do not necessarily provide answers to qualitative questions dealing with how family ownership influences firm processes. For this, further studies with diverse research approaches are needed.

Many family firm conceptualisations (see, for example, Chua et al., 1999; Donnelley, 1964) consider the cross-generational approach and aspiration for long-term sustainability as key characteristics of family firms, but the track record of family firms achieving long-term sustainability remains lacklustre. Many fade out of existence before reaching maturity. It has been estimated that only 3 out of 10 family firms make it to the second generation, and only 10–15% survive to later generations (Beckhard & Dyer, 1983; Hiebl, 2015; Kets de Vries, 1993; Ward; 1987). On average, family firms reach an age of only 24 years, equalling the founder's standard tenure with the firm (Kets de Vries, 1993; Beckhard & Dyer, 1983). Complacency, resistance to change (Jensen, 2003; Miller & Le Breton-Miller, 2005; Ward, 1997), difficulties in making decisions on shedding low-value resources (Sirmon & Hitt, 2003), lack of capital (Ward, 1987, 1997), lack of next-generation talent (Beckhard & Dyer, 1983; Kets de Vries, 1993; Ward, 1997), lack of ability to attract talent in general (Barba & Tapies, 2009; Hauswald et al., 2016; Sirmon & Hitt, 2003), conflicts among siblings regarding succession or other challenges in succession (Kets de Vries, 1993; & Miller et al., 2003; Ward, 1997; Ward & Aronoff, 1992) and disparate goals among the owners (Ward, 1997) have been suggested as underlying reasons for the mortality of family firms, as well as for challenges with less severe consequences than going out of business. On the other hand, several scholars have proposed that family firms can also possess characteristics that offer a competitive advantage compared to non-family firms and that serve the goal of long-term sustainability. These include long chief executive officer (CEO) tenures (Le Breton-Miller & Miller, 2006), concern for continuity and future generations (Le Breton-Miller & Miller, 2006; Sirmon & Hitt, 2003), potential for developing deep tacit knowledge (Sirmon & Hitt, 2003; Miller & Le Breton-Miller, 2005), entrepreneurial spirit (Sirmon & Hitt, 2003), altruistic motives (Cater & Schwab, 2008), discretion of owners (Carney, 2005; Le Breton-Miller & Miller, 2006; Miller & Le Breton-Miller, 2005), parsimony (Carney, 2005), fewer agency conflicts, and reduced governance and capital costs (Anderson & Reeb, 2003; Chrisman et al., 2004; Le Breton-Miller & Miller, 2006; Sirmon & Hitt, 2003).

All businesses, regardless of their ownership structure, face several forces possessing the potential to profoundly change the competitive landscape. Emerging new technologies and end-user demands combined with sometimes unexpected economic and political disruption leave few industries intact. Survival and success requiring dealing effectively with these changes. Strategic renewal, or an attempt to revitalise a firm's strategic direction and capabilities (Schmitt et al., 2016b), can offer significant implications for both the firms involved as well as for entire societies (Agarwal & Helfat, 2009). Strategic renewal has accordingly become an important topic within organisation and management studies. A significant share of strategic renewal research has focused on studying outcomes and renewal processes of large, established corporations (Kwee et al., 2010). However, in recent years, the studies of Bégin et al. (2010), Canterino et al. (2013), Cater

and Schwab (2008), Miller and Le Breton-Miller (2005) and Salvato et al. (2010) have begun to pave the way for better understanding specifically for family firms' strategic renewals. These studies have suggested that the strategies adopted by family firms do not differ from those of non-family firms (Bégin et al., 2010; Cater & Schwab, 2008; Canterino et al., 2013), but that family-firm characteristics such as long-term focus, consensus orientation and informality can influence the process (Cater & Schwab, 2008).

1.2 Research objective, research gaps and research questions

Research in management science should ultimately be justified through its meaningfulness for practitioners and benefits for society at large (Huse, 2020). Family firms are of high economic importance (e.g. Astrachan & Shanker, 2003; European Commission, 2009) but suffer from low survival rates (Beckhard & Dyer, 1983; Hiebl, 2015; Kets de Vries, 1993; Ward, 1987). As a family firm matures, its environment can be assumed to change as well. Combined with the organisation's growing economic and psychological commitment to its chosen strategy as time goes by, this increases the probability of the company needing a radical change to survive and prosper (Huff et al., 1992).

The board of directors can be expected to play an important role in steering a firm's strategic direction (Gopinath et al., 1994; Hass & Pryor, 2005). In a later-generation family firm, the owners often exercise control through serving on the board (Gersick et al., 1997). While existing studies on family firm renewals have recognised the board's role in the renewal process (e.g. Canterino et al., 2013; Cater & Schwab, 2008; Salvato et al., 2010), the micro-processes of family-firm governance in this context have not yet been studied. The extant research on family firms, strategic renewal and governance has identified several areas where additional research is required to benefit both theory and practice:

1) The need to know more about the content, antecedents and consequences of family-firm strategic renewals, as well as a need for generalisable conceptualisations for understanding family-firm renewals (e.g. Canterino et al., 2013; Bégin et al., 2010; Salvato et al., 2010; Sundaram, 2019).
2) The need to know more about board behaviour and what boards actually do, both inside and outside the boardroom (e.g. Åberg et al., 2019; Bankewitz, 2016; 2018; Gabrielsson & Huse, 2004; Huse et al., 2011; Mace, 1971; Machold & Farquhar, 2013; Van Ees et al., 2009).
3) The need to know more about board processes and the role that the contextual factors play in board work (e.g. Bammens et al., 2011; Gabrielsson & Huse, 2004; Huse, 1993; Huse et al., 2011; Machold et al., 2011; Zattoni et al., 2015).
4) The need to know more about the content of the board's service/advisory role and tasks, as well as how the board processes relate to these (Åberg et al., 2019; Bankewitz, 2016; 2018; Machold & Farquhar, 2013).

5) The need to know more about the role of relational terms, rules and norms in board behaviour as a group and in the dyadic (two-person relationship) relations between the board members and the management (Huse, 2005; Koskinen & Lämsä, 2016, 2017; Ocasio, 1999)

Hence, the main objective of this study is to explore the role of the members of the board of directors in family-firm strategic renewal. In the context of this study, the board of directors features representatives of family-firm owners as well as non-family board members, one of whom chairs the board. The CEO participates on the board meetings but is not a member. Together, these actors form the 'key governance actors' of the firm. This study aims to understand whether the interaction of these key governance actors influences the renewal process, and if so, how. Therefore, this study seeks to build theoretical knowledge regarding family-firm board members' capabilities and limitations for facilitating family-firm renewal, as well as generate actionable insights for family-firm practitioners. These objectives are reflected in **the initial, overarching research question of this study: What are the key governance actors' roles and dynamics in the family-firm renewal process, and how do they influence this process (Research question 0, 'RQ0')?**

This overarching research question is split into three more focused research questions. First, given that family-firm owners' behaviour can be expected to represent a key source of family-firm characteristics moderating the process (Cater & Schwab, 2008), the owners' role in strategic renewal appears under-researched. With exception of the study by Salvato et al. (2010), which focused on the owners' role per se, the owners' behaviour has largely been presented as an important contextual factor that can either facilitate or hinder change. However, the owners have a control of the organisational agenda and an equity interest (see, e.g., Carney, 2005; Chrisman & Patel, 2012; Hiebl, 2015; Le Breton-Miller & Miller, 2006; Miller & Le Breton-Miller, 2005). This combined with potentially long tenure with the firm, suggests that owners can represent an important decision-making coalition regarding strategic renewal. Hence, the owners' potential to influence the sustainability of family firms, both inside and outside the boardroom, merits further research. Thus, the first specific research question of this study is: **How does the behaviour of family-firm owners influence the firm's strategic renewal (Research question 1a, 'RQ1a'), and how do the owners make decisions regarding the renewal process, and how does this influence the strategic renewal process (Research question 1b, 'RQ1b')?**

Second, changing environmental conditions alters the skills and competences required in a firm (Castanias & Helfat, 2001; Huff et al., 1992). However, attracting new talent in a speedy manner can be challenging. Hence the firm's internal talent pool may become inadequate for responding to rapid changes in the competitive landscape. The owners who serve on the board may possess extensive firm-specific knowledge (Kets de Vries, 1993). On the other hand, board members who are not family members and who are not part of the management team (i.e. non-family board members) may enact an important resource

role by providing general business knowledge and access to external resources (Bammens et al., 2011; Bettinelli, 2011; Gabrielsson & Huse, 2005).

However, despite the recent increased interest in the board members' advisory role (see, for example, Åberg et al., 2019; Adams et al., 2010; Bankewitz, 2016, 2018; Machold & Farquhar, 2013), there remains only limited research concerning how board members enact this role in practice. However, the advisory role of non-family board members offers a potential source for improving a family firm's capacity to renew its strategies. Hence the second research question of this study is: **How do non-family board members enact their advisory role in family-firm strategic renewal, and how does this influence the strategic renewal process (Research question 2, 'RQ2')?**

Third, while the family-firm governance literature has long recognised the informality of processes as a key characteristic of family-owned firms in general (e.g. Astrachan, 2010; Canterino et al., 2013; Cater & Schwab, 2008; Chrisman et al., 2018; Gersick et al., 1997), it has expressed a limited focus on understanding how the decision-making is influenced by informal governance processes (Astrachan, 2010; Chrisman et al., 2018; Huse, 2005; Mustakallio et al., 2002). Furthermore, the wider social context in which the governance roles are enacted (e.g. Huse, 1998; Huse, 2005; Huse & Zattoni, 2008) has remained largely ignored compared to studies reflecting long-held views of board members rarely coalescing outside of board or committee meetings and enacting their role primarily as a coalition in the board meetings (Finkelstein & Mooney, 2003; Forbes & Milliken, 1999). However, the governance literature has also long recognised that board interaction is not restricted solely to the boardroom (e.g. Gabrielsson & Huse, 2002; Huse, 1998, 2005, 2007; Huse & Zattoni, 2008; McNulty et al., 2011; Pettigrew & McNulty, 1995). To gain insights into the family-firm directors' role, influence and efficiency in the context of strategic renewal, the third research question of this study is: **Why and how do family-firm CEOs, chairs and owners interact with each other outside the boardroom, and how does this influence the strategic renewal process (Research question 3, 'RQ3')?**

This dissertation features two parts. The first section summarises key theories underlying the scope of my research, research design and methodology, as well as discussion, results and conclusions. The empirical evidence of this study draws from four published articles comprising the second part of this dissertation. Figure 1 illustrates the articles' role in relation to sub-questions:

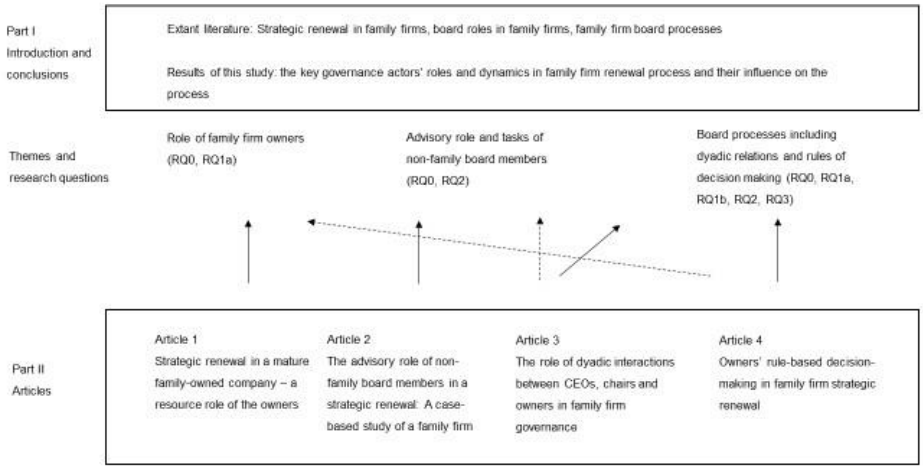

Figure 1: Structure of the dissertation

Table 1 provides an overview of the articles. Article 1 studies the family-firm owners' role at different stages of family-firm renewal. It further analyses the behaviour and actions taken by the owners and how they can induce either stress or inertia, thus expressing either a stimulating or stabilising influence in an organisation.

Article 2 focuses on the advisory role and tasks of non-family members and how this evolves in its content, intensity and locus at different stages of renewal. While the stress- and inertia-inducing effect is in many respects similar as with the owners, in the beginning of the renewal process, it is revealed to follow a distinctive pattern of its own.

Article 3 analyses the dyadic relations between the owners and non-family chair of the board and non-family CEO outside the boardroom. It further examines how the informal and formal governance processes intertwine and how this influences decision-making.

Article 4 more closely examines the owners' informal decision-making rules, both inside and outside the boardroom. It also discusses the identities that the family-firm owners can adopt in family-firm-related decision making, as well as the informal rules that the owners apply in their renewal-related decision making.

Table 1: Overview of the articles in Part II

Publication	Research question	Theoretical perspectives	Empirical context	Research design	Key findings
Strategic renewal in a mature family-owned company – A resource role of the owners	How does the behaviour of family-firm owners influence strategic renewal?	Model of cumulative stress and inertia The owners' influence on family-firm decision-making	A Finnish family firm attempting a strategic renewal	Single qualitative case study	By properly timing their influence, owners can play a resource role and both trigger and support the renewal by actions that stimulate and create stress or stabilise and create commitment. Well-designed governance structures and processes can form a sustainable platform enabling the owners to exercise discretion and influence transparently.
The advisory role of non-family board members in strategic renewal: A case-based study of a family firm	How do non-family board members enact their advisory role in family-firm strategic renewal?	Model of cumulative stress and inertia Role of non-family board members	A Finnish family firm attempting a strategic renewal	Single qualitative case study	Through their advisory role, non-family board members can play an important role in supporting the CEO and the owners in bringing about the change. The role, content, intensity and locus of non-family board-members' advice evolves as the renewal proceeds, reflecting the stage of the renewal process.
The role of dyadic interactions between CEOs, chairs and owners in family-firm governance	Why and how do family-firm CEOs, chairs and owners interact with each other outside the boardroom, and how does this influence the decision making?	Dyadic relationships Informal governance processes Role of non-family board members	Finnish family firms attempting a strategic renewal	Two qualitative case studies	Dyadic interaction at the backstage of the formal governance process offers the chair and the owners privileged access to influence the content of board decisions directly before, after and between the board meetings. The board decision making can be viewed as a multi-step process intertwining informal and formal processes and involving board members to varying degrees. Informal processes have the potential to conflict with the formal board processes. To avoid this, the actors self-regulate their behaviour through informal rules. However, not all risks are addressed. Dyadic interaction can offer relational and emotional benefits that may not necessarily be achieved through larger group interaction.
Owners' rule-based decision-making in family-firm strategic renewal	How do the owners make decisions regarding the renewal process, how does this influence the strategic renewal process?	Institutional action theory Model of cumulative stress and inertia	Finnish family firms attempting a strategic renewal	Two qualitative case studies	The informal rules sustain family tradition and transfer experience over generations, as well as depersonalise the use of power. Family-firm owners' rules form a hierarchy and can both facilitate change and form a source of inertia in family-firm strategic renewal.

1.3 Definitions

Given the plurality of the terms utilised in the fields of family-firm and governance research, the key concepts employed in this study are defined below.

Corporate governance: '*The system by which companies are directed and controlled' (*'The Cadbury Report', Committee on the Financial Aspects of Corporate, 1992, para 2.5).

Board of directors: A company governing body and its members that see '*to the administration of the company and the appropriate organisation of its operations. The board of directors consists of directors appointed by the general meeting*' (Securities Market Association, 2020, p. 13).

Family firm: '*A business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations or families*' (Chua et al., 1999, p. 25). In the publications that form a part of this dissertation, words 'family company' or 'family business' may be used interchangeably with 'family firm'.

Formal governance process: Corporate governance processes originating from the legal and other formally codified systems in which firms operate (Chrisman et al., 2018, p. 172), such as general meetings and meetings of boards of directors.

Informal governance process: Corporate governance processes that do not directly originate from the legal or other formally codified systems, but instead reflect the stakeholders' interests, pressures for conformance and adaptation to the norms (Chrisman et al., 2018, p. 172).

Later-generation family firm: A family firm '*in which family members of the second or later generations are involved in the management and/or ownership*' (Hiebl, 2015, p. 1062).

Non-executive director: Board members '*who are not members of the company's operative management*' (Securities Market Association, Finnish Corporate Governance Code 2020, p. 13).

Strategic renewal: '*Strategic renewal describes the process that allows organizations to alter their path dependence by transforming their strategic intent and capabilities*' (Schmitt et al., 2016b, p. 5).

1.4 Scope of the study

This study has been conducted in the Finnish context, where the corporate governance system is based on civil law and clearly separates the authority and power of the different administrative bodies. The Finnish Limited Liability Companies Act stipulates that a company shall feature a board of directors appointed by the general meeting,[2] and it may have a managing director (in this dissertation referred to as the 'CEO') appointed by the board. The CEO is responsible for the firm's operational management within the bounds of the board's instructions. The board itself sees to the administration and appropriate control of company finances and organisation of the company's operations. The focus of this study excludes family governance systems such as family councils.

This study focuses on the role of the members of the board of directors in family-firm strategic renewals. The study does not focus on the role of owners who do not serve in the board of a family firm. In the study, both family members and non-family board members who serve on the board comprise non-executive directors. While there is a strong research tradition regarding the dual roles of management on the board of directors, especially in the US, this study's rationale for focusing on non-executive directors is two-fold. First, the Finnish Corporate Governance Code by the Securities Market Association (2020) recommends that the majority of the board members are independent of the company. Not appointing members of the management as board members has become a widely adopted governance best practice, including among larger, professionally managed private companies. Second, as family firms mature, professional managers often replace family managers, and family members exercise influence through their board seat rather than by assuming executive positions themselves (Van Aaken et al., 2017; Gersick et al., 1997). As evidenced by the Finnish Family Firms Association (2016), appointment of a non-family CEO and chair of the board is common among mature Finnish family firms. Over 50% of family firms employing 250 or more employees possess a non-family CEO, and almost 40% feature a non-family chair.

While part of this study's data is longitudinal in nature, covering time periods prior to strategic renewal and continuing through the strategies' execution, the focus is not on how these strategies influence desired long-term renewal outcomes.

[2] The Finnish Limited Liability Companies Act also recognises supervisory boards, but they are rarely found outside of state-owned companies. If a supervisory board is present, the articles of association may require the board to be appointed by the supervisory board (Securities Market Association, 2020).

2 THEORETICAL BACKGROUND

The objective of this section is to summarise the key theoretical concepts relevant to this study. A more detailed account of relevant studies can be found in the publications comprising the second part of this dissertation.

2.1 Family-firm research and definition

The existence of family-firm research as a distinct discipline is justified by the assumption that family involvement in business influences how the firms are being organised and run, and that this can make them different from non-family firms (Chrisman et al., 2005, Chua et al., 1999; Bammens et al., 2011). As a result, family-firm scholars focus on the impacts of the dynamic co-existence of the two systems (at a minimum the family and the business systems), but sometimes include the ownership system as a third system (see, for example, Gersick, et al. 1997; Nordqvist et al., 2015; Tagiuri & Davis, 1996). Family-firm research as a distinct discipline has grown materially over the last two decades (Gedajlovic et al., 2012; Gomez-Mejia et al., 2011; Harms, 2014; Nordqvist et al., 2015). Its scope has included areas such as family-firm governance, entrepreneurship and innovation, succession, professionalisation, corporate social responsibility and accounting practices, and family-firms' strategic choices, including risk-taking appetite, R&D investments, corporate diversification, internationalisation, acquisitions and financing (Gomez-Mejia et al., 2011).

However, as estimations of the proportion of family firms to all firms can vary as much as 15% to 79% in different studies, it is evident that family research is not based on a unified definition of family firms (Gomez-Mejia et al., 2011; Harms, 2014). A common European Union definition for family firms defines a firm as family-owned if the majority of decision-making rights are controlled by the founders, a person (or family members) who acquired the shares, and a minimum of one representative of the family or kin is involved in governing the firm (European Commission, 2009). According to this definition, publicly traded companies can be categorised as family firms if the founder, the person who acquired the shares or their family members control 25% of the decision-making rights. Other operationalisations of family firms include a single family holding a majority of the shares (Gallo & Sveen, 1991), 10% or more of the shares controlled by a family (Allen & Panian, 1982), more than 50% of the voting power being controlled by the family members (Westhead et al., 2001), a family member serving as a manager or board member (Anderson & Reeb, 2003) or 5% or more of the shares held by family members and at least one person with family ties serving on the board (Gomez-Mejia et al., 2011).

Differences in the legal systems between the countries, the organisational and national culture, and the definition of family have been suggested as key reasons for the heterogeneity of family-firm definitions (Harms, 2014). In the first comprehensive family-firm definition review, Chua et al. (1999) criticised family-firm research for

having focused on components of involvement such as ownership, management and control, dismissing the essential elements of family ownership (Harms, 2014). Instead, they suggested that what distinguishes (or has the potential to distinguish) family firms from non-family firms must be part of the theoretical definition of family firms. Consequently, Chua et al. (1999, p. 25) proposed a definition, also adopted in this dissertation, that defines a family firm as '*a business governed and/or managed with the intention to shape and/or pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families*'.

2.2 Strategic renewal as a theoretical construct

The need to balance the conflicting forces of stability and change represents a paradox that organisations face in their attempts to survive and prosper (Baden-Fuller & Volberda, 1997). Short-term requirements to maximise existing capabilities call for stability, while the competitive pressures and desire to be more successful create pressure for change and renewal (Baden-Fuller & Volberda, 1997). This makes strategic renewal an important yet often vaguely defined theme in the studies on organisation and management. However, as Agarwal and Helfat (2009) observed, strategic renewal commonly seems to relate to a refreshment or replacement of such firm attributes with the potential to affect long-term firm sustainability.

In the literature on organisational change, strategic renewal has been conceptualised in numerous ways. Below, four different ways to categorise approaches to strategic renewal are identified and discussed.

Typology according to level of analysis: Approaches to strategic renewal can be categorised based on the level of the analysis within an organisation. Bègin et al. (2012) distinguished between two organisational and conceptual levels of renewal activities. The first level ('micro') deals with activities and products, while the second level ('meso') concerns strategy and structure. Hence, micro-level approaches can be understood to function at the operational level and focus on activities such as making major changes in functions such as marketing or reshaping operations (e.g. Guth & Ginsberg, 1990) or addressing an existing market through new product creation (e.g. Kim & Pennings, 2009). In turn, the meso level operates at the corporate level (Bègin et al., 2010). It focuses on activities that a firm undertakes to '*alter its path dependence*', such as high-level strategic decisions between exploration and exploitation (Volberda, Baden-Fuller, and van den Bosch, 2001, p. 160), or strategic actions to align organisational competencies with the external environment (e.g. Flier et al., 2003), as Bègin et al. (2012) further suggested.

Typology according to managerial mechanisms: Baden-Fuller and Vorberda (1997) approached strategic renewal by differentiating between mechanisms that management can adopt to achieve necessary change. The proposed framework distinguishes between two internal methods for executing the change: spatial separation and temporal separation. Spatial separation refers to the organisational isolation of change initiatives,

while temporal separation involves alternating between time periods of change and stability. Two ways to distinguish between the renewal content were also identified—namely, revitalising existing competences and reordering core competences and peripheral routines. Combining these two dimensions, Baden-Fuller and Vorberda (1997) identified four mechanisms of renewal. The first, *reanimating*, combines spatial separation and revitalising existing competences. The second, *venturing*, combines spatial separation and reordering core competences and peripheral routines. The third, *rejuvenation*, combines temporal separation and revitalisation of existing competences. The fourth mechanism, *restructuring*, combines temporal separation and reordering core competences and peripheral routines.

More recently, Miller et al. (2019) contributed to the discussion regarding the managerial mechanisms of strategic renewal. They proposed a typology that recognises reinterpretation and re-enactment of already once-abandoned strategies in addition to radical and incremental approaches as managerial mechanisms that firms may choose to rejuvenate their strategies. This approach highlights renewal mechanisms that are distinct from the current status quo but do not require breaking free from the firm's past.

Typology according to theoretical tensions: Schmitt et al. (2016b) provided a typology based on the theoretical tensions within the dimensions of *antecedents, processes* and *outcomes.* In the first dimension, *antecedents*, the tension revolves around the sources of strategic renewal. The scholars adopt an organisational learning perspective (e.g. Crossan et al., 1999) or perceive renewal as a transformation of the company resources (e.g. Augier & Teece, 2009). In the second dimension, *processes*, the focus concerns the actual execution of the renewal. In this dimension, the key tension resides between the views of whether the key agent for renewal is senior management (e.g. Kwee et al., 2011) or lower levels of the organisation (e.g. Floyd & Lane, 2000). *Outcomes*, the third dimension according to Schmitt et al. (2016b), focuses on the goal of the renewal. In this dimension, the key tension is between the co-creation perspective, according to which the firms take active measures to influence the industry to improve their competitiveness (e.g. Flier, Van den Bosch & Volberda, 2003) and the co-alignment approach promoted, among others, by Huff et al. (1992), who view renewal as an attempt to re-create the fit between the firm and its environment.

This dissertation adopts the model of Huff et al. (1992) on strategic renewal and interaction of stress and inertia as a theoretical framework. Drawing on the theories of Cyert and March (1963) and Simon (1945) in recognising the role of cognitive boundaries and satisficing behaviour, as well as schema theories and innovation adaptation (see, for example, Rogers, 1962; Lave & March, 1975; Abrahamson, 1991), it depicts the renewal through a model of stress and inertia existing simultaneously in any organisation. As the firm matures, it becomes increasingly likely that commitment to the current strategy, *inertia*, grows while, at the same time, the environment may change or management may fail to implement the strategy satisfactorily (Huff et al., 1992). However, the organisation does not consider rejecting the status quo (State I in the model) as long as the current

strategy delivers results deemed acceptable or if such results can be achieved by making only minor adjustments to the strategy. Over time, inertia increases as the economic and psychological commitment to the strategy grow. However, *stress*, or dissatisfaction with the strategy, begins to accumulate if the strategy results do not meet the key stakeholders' expectations even when the strategy is incrementally adjusted.

To address dissatisfaction, at some point, the organisation may need to decide whether it will consider a radical change in its strategy (State II), Huff et al. (1992) argued. If it decides to do so, it will develop and evaluate alternative renewal strategies (State III). New strategies involve risks, and a key part of the evaluation focuses on assessing whether the expected benefits of the new alternatives outweigh the risks. If a renewal strategy is deemed to do so, the organisation is ready to move to State IV. Huff et al. (1992) described this stage as the 'honeymoon' phase, characterised by early excitement. Once the first results of the selected new results can be observed, the organisation assesses whether the results are adequately aligned with the expectations. If so, economic and psychological commitment to the new strategy begins accumulating, and the organisation returns to the status quo.

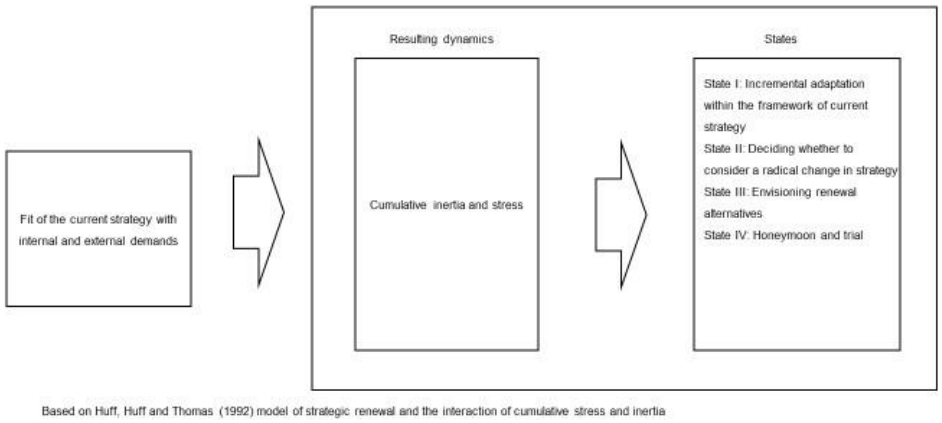

Figure 2. Depiction of the Huff et al.'s (1992) model of strategic renewal and the interaction of cumulative stress and inertia.

In the framework of Huff et al. (1992), the definitions of inertia and stress differ from how they are used in everyday language. Inertia is not necessarily defined as a negative phenomenon (or as a direct synonym for complacency and stagnation) but rather as a force that, through commitments, allows action without disrupting the status quo (Huff et al., 2000). Similarly, stress is understood as stimuli that place a strain on a firm's strategy but not necessarily as a harmful force (Huff et al., 2000).

According to the typology based on theoretical tensions (Schmitt et al., 2016b), the model of inertia and stress by Huff et al. (1992) depicts renewal as an attempt to reach an outcome that provides a satisfactory fit between the firm and its environment. Hence, organisational action is viewed as a means to transform the existing situation into one that is preferred (Simon, 1969). Managerial activities are temporally separated (Baden-Fuller & Vorberda, 1997) as cumulative stress leads to a series of managerial measures that punctuate the periods of stability. The model also connects with the constructs of process narrative and teleological model of change (Van de Ven, 1992; Van de Ven & Poole, 2005), as it conceptualises renewal as a succession of stages and highlights the organisational actors' role in driving the organisation in a goal-oriented manner towards more desirable conditions.

While the model of Huff et al. (1992) forms a theoretical framework for this study, this dissertation adopts the definition of Schmitt et al. (2016b, p. 5) for strategic renewal—namely, '*the process that allows organizations to alter their path dependence by transforming their strategic intent and capabilities*'. This definition of strategic renewal aligns with the model of stress and inertia. It highlights the temporal aspect of renewal by defining it as an organisational process where a series of actions is undertaken to achieve a particular end. It also emphasises the transformational nature of this process by referring to its path-breaking character (Schmitt et al., 2016a) and radical nature, thus distinguishing it from incremental adjustments of the current strategy.

2.2.1 Strategic renewal as an empirical phenomenon in family firms

Family firms represent a significant economic source (e.g. Astrachan & Shanker, 2003; European Commission, 2009), yet they can display complacency and resistance to change (Jensen, 2003; Le Breton-Miller & Miller, 2006; Miller & Le Breton-Miller, 2005) as well as low survival rates (Beckhard & Dyer, 1983; Hiebl, 2015; Kets de Vries, 1993; Ward; 1987). Nevertheless, later-generation family-firm renewals have long remained under-researched (Bègin et al., 2012). However, during the last decade, this domain has begun attracting the interest of family-firm scholars. While the studies of Bégin et al. (2010), Canterino et al. (2013), Cater and Schwab (2008) and Salvato et al. (2010) provided rare case-based references to this subject, as they focused on strategic renewal processes that fit the definition of strategic renewal as adopted in this study, Jensen (2003), Miller and Le Breton-Miller (2005), Brunninge et al. (2007), Sardeshmukh and Corbett (2011) and Sundaram (2019), provided important insights into the antecedents of family-firm success or failure as well as strategies that can induce incremental change in

family firms. The studies that fall in this category are discussed below, followed by the case-based studies.

The family-firm tradition is often viewed as both an asset that can preserve successful methods of working and as a threat that can hinder observing and responding to changing market requirements (Jensen, 2003). Several scholars have discussed this seemingly bipolar nature of family firms and its influence on family-firm performance and ability to renew themselves when contingencies change. Many family-firm scholars have suggested that family firms may enjoy an advantage over non-family firms in their ability to invest for the long term. Miller and Le Breton-Miller (2005) summarised the key priorities of family firms as *continuity*, *community*, *connection* and *command*. The long-term focus, *continuity*, can facilitate important investments in the future, while focused ownership and *command* are suggested to enable unorthodox strategies (Miller & Le Breton-Miller, 2005). A deep passion for a core mission of a family firm may encourage family-firm owners to forego personal financial benefits and invest in this mission on a long-term basis (Miller & Le Breton-Miller, 2003), while focused ownership, lengthy TMT (top management team) tenures and deep business knowledge can generate further resources, enabling future investments (Le Breton-Miller & Miller, 2006). Carney (2005), in turn, suggested that family control enables propensities such as parsimony, personalism and particularism in corporate governance of family firms. These propensities are argued as benefitting the family firm in scarce environments, enabling the creation and use of social capital, and supporting opportunistic investments. While family firms may also incur agency costs (Chrisman et al., 2004; Schulze et al., 2001; Steijvers et al., 2010; Villalonga & Amit, 2006), it has been suggested that they can enjoy lower governance and capital costs than non-family firms (Anderson & Reeb, 2003; Chrisman et al., 2004; Le Breton-Miller & Miller, 2006; Sirmon & Hitt, 2003).

However, despite these potential advantages, family firms face a lacklustre track record in long-term survival (Beckhard & Dyer, 1983; Hiebl, 2015; Kets de Vries, 1993; Ward, 1987). As Jensen (2003, p. 8) observed, '*Tradition is a double-edged sword in family business'*. History can play a key role in legitimising managerial actions in a family firm (Salvato et al., 2010), and strategies can remain unchanged even when external turbulence is present (Miller et al., 2003). Based on a sample of 70 family firms, Miller and Le Breton-Miller (2005) observed that overreliance on dimensions such as continuity and community could lead a firm to become ignorant of the environment. Conflict avoidance between family members can also hinder or slow down necessary change (Cater & Schwab, 2007). Family-firm owners that have performed well for a long period may further suffer from cognitive biases such as overconfidence from past achievements or if they serve as managers, promotion by birthright rather than merit (Jensen, 2003). Beyond this, the positive reputation that owners enjoy in the community can feed 'cultural inertia' and resistance to change (Canterino et al., 2013). On the other hand, admitting defeat, or a need for change, can be difficult for a family manager, who would be failing not only in front of business partners, but also in the eyes of their family members (Jensen, 2003).

Several scholars have argued that family firms and their owners' desire to maintain their identity can represent an important source of resistance to change. As Brunninge (2005, pp. 299–300) interpreted Gioia et al. (2000), questions regarding current and future identity are seen in relation to 'who have we been'. Jensen (2003) suggested that family-firm owners may unconsciously consider calls for change in habitual behaviour and related strategies as attacks to the very substance of the business and thus resist them. If the relationship between past and future is troubled, this can produce severe consequences for processes that facilitate renewal, including strategy formulation (Brunninge, 2005), recruitment, promotion (Jensen, 2003) or intergenerational succession (Miller et al., 2003).

Family firms' approach to risk may also influence family-firm owners' behaviour and appetite for change. While family firms have been suggested to be more risk-averse than non-family firms (Hiebl, 2013), they have also been argued to conceptualise risk differently (see, for example, Chrisman & Patel, 2012; Gómez-Mejia et al., 2007). This has been suggested as influencing strategies that a family firm considers as appropriate renewal tools. Family firms may also avoid venturing risks designed to improve performance but which can cause greater variance in it (Gómez-Mejia et al., 2007; Gómez-Mejia et al., 2010).

Apart from the abovementioned endogenous factors that can promote resistance to change, family firms may also face a disadvantage in attracting new talent, which can represent an important source of organisational change (Huff et al., 1992). They may suffer from limited access to the talent pool, as they may prioritise family members as top-position candidates, and professional managers may perceive family firms as offering limited professional and financial prospects (Cater & Schwab, 2007; Barba & Tapies, 2009; Sirmon & Hitt, 2003). Job seekers who value stability and conservation can also be more attracted to family firms than those who are highly open to change (Hauswald et al., 2016).

Several strategies have been discussed to help family firms induce incremental change. It has been suggested that ambidexterity, or the organisational ability to simultaneously implement both explorative and exploitative activities (Tushman & O'Reilly, 1996; Simsek, 2009), can help an organisation balance the requirements for short-term performance and long-term sustainability. Hiebl (2015) argued that in later-generation family firms, family involvement can limit ambidexterity. To maintain a high level of explorative mindsets and activities, Hiebl (2015) suggested involving non-family managers and shareholders in fostering a firm's explorative activities. Ambidexterity was also offered as a solution by Sundaram (2019) when he proposed exploitation of inherent capabilities and exploration and renewal as prerequisites to benefit from family-firm characteristics related to governance, renewal, ownership continuity and social capital.

A family firm's responsiveness to the need for change has also been attributed to trans-generational succession (Miller et al., 2003; Sardeshmukh & Corbett, 2011) or board

structure (Brunninge et al., 2007). Sardeshmukh and Corbett (2011) proposed that successors' new opportunity perception is influenced by the family-firm-specific human capital (based on the experience gained in the family firm) and general human capital (based on education and other work experience). Both types of human capital can distinctively contribute to the family-firm successor's abilities to identify and exploit new opportunities, as Sardeshmukh and Corbett (2011) argued. However, it has also been claimed that coupling business development and the family-succession cycle may not offer a lasting remedy. Most family-firm heads must lead the firm through several business development cycles, and their initial improvements do not necessarily suffice for long (Gersick et al., 1997).

In later-generation family firms, the strategy process faces additional complexities, as factors such as the founder's legacy and firm history must be taken into account (Gersick, et al., 1997). A well-functioning board has been demonstrated to be able to support the strategy process. The study of Brunninge et al. (2007), based on a longitudinal sample of Swedish family firms, focused on how change aversion can be counteracted by the board structure. They suggested that, while closely held companies exhibit less strategic change, increasing the size of the TMT or appointing outside directors can help them renew their strategies. Expanding the number of individuals involved in decision-making has also been revealed to help respond to change. This is in line with the findings of studies on the roles of non-family board members, which have suggested that their advisory role can be highly valuable for the firm (see, for example, Jones et al., 2008; Schwartz & Barnes, 1991; Van den Heuvel et al., 2006; Voordeckers et al., 2007). The practitioner-oriented literature has also highlighted the role that external consultants can play in initiating or supporting strategies directed towards reaching desired changes (see, for example, Cater & Schwab, 2008; Gersick et al., 1997; Jensen, 2003).

While the above studies have highlighted the managerial tools that can promote change and renewal, empirical case-based evidence on family-firm renewals provides a key reference point for this study. Unlike managerial measures that provide incremental improvements to a firm strategy, these case studies focus largely on radical change processes that fit the definition of strategic renewal adopted in this dissertation. These cases feature multi-level, highly contextual studies demonstrating that family firms adopt measures similar to non-family firms in order to transform the firm. They renew top leadership, shed unnecessary assets and costs, and refocus the business by investing in new opportunities to build for the future—all recognised tools for company-wide change (see, for example, Huff et al., 1992; Schoenberg et al., 2013; Stopford & Baden-Fuller, 1990). While the case studies on family-firm renewals have acknowledged these strategies, their focus has rested more on the family firms' unique characteristics that influence their renewal processes compared to non-family firms.

In a study of two US-based family firms, Cater and Schwab (2008) recognise that family-firm characteristics can both facilitate and hinder organisational change. Adopting features of the two-staged turn-around models (e.g. Arogyaswamy et al., 1995; Robbins & Pearce, 1992), Cater and Schwab (2008) distinguished between two renewal stages: at

stage one, the focus concerns TMT changes and external advice, while stage two deals with the changes required by the business and the organisation's functions. Internal orientation, consensus orientation, informality, altruism and long-term focus were proposed by Cater and Schwab (2008) as factors moderating renewal strategies adopted by family firms.

In their study on Italian family entrepreneurs' exit from the founder's business and the subsequent entrepreneurial renewal, Salvato et al. (2010) focused on the owners' role in the business renewal. They recommended a strong family champion to hold an important role in preserving institutional integrity during the process of exiting the founders' business for subsequent entrepreneurial renewal. According to Salvato et al. (2010), legitimising new strategies by reinterpreting traditional family values represents an important part of this. This finding supports the proposition concerning the importance of maintaining or restoring the organisational identity discussed by Brunninge (2005), Gioia et al. (2000) and Jensen (2003).

While Salvato et al. (2010) focused on the family-firm change process, Bégin et al. (2010) studied the strategic renewals of a French family firm since its foundation over 180 years ago, arguing that the transgenerational aspiration of family-firm owners explains the spirit of the renewal processes. While not formally adopting the concept of ambidexterity used by Hiebl (2015), the study highlighted the overlap of a mature or declining business and the growth of new ventures and the role that transgenerational aspirations play in an entrepreneurial orientation that facilitates long-term sustainability.

The case-based literature has recognised family-firm owners as drivers of a firm's entrepreneurial spirit and champions for change (Bégin et al., 2010; Salvato et al., 2010), while also suggesting that non-family CEOs may be necessary to challenge the inertia of the family firm and its owners (Canterino et al., 2013). It has also been proposed that, while the non-family CEO can play a key role in executing radical renewal strategies, the effective family-firm renewal must also contribute to the family members' shared vision for the firm (Canterino et al., 2013), suggesting a high dependence between the non-family CEO and the owners. The literature on family-firm renewals has also recognised that renewal can represent a common effort where both family member owners/managers and non-family managers/advisors jointly contribute to renewal efforts, whereas differences between the opinions of the owners—or avoidance of conflict—can negatively influence change (Cater & Schwab, 1998; Salvato et al., 2010).

Hence, the literature on family-firm renewals has conceptualised family-firm owners' behaviour and family-firm characteristics as a contextual factor that can inhibit, facilitate or produce a mixed influence on renewal, while the role of non-family managers and/or advisors has been depicted more exclusively as a key source for change and renewal. Despite the board's central role in steering the firm's strategic direction (Gopinath et al., 1994; Hass & Pryor, 2005), as well as corporate governance being recognised as a possible competitive advantage of a family firm (Carney, 2005; Sirmon & Hitt, 2003),

the board's decision-making and governance processes have not been discussed in depth by the case-based literature on family-firm renewals. Such studies have recognised—but not highlighted—the role of the board of directors. Cater and Schwab (2008) acknowledged the role of the board of directors as a decision-making forum but observed that family firms have also been argued to feature less formal governance systems compared to non-family firms. Salvato et al. (2010) recognised the board's role in providing an objective view of the situation as the family firm exits from its initial business and focuses on new entrepreneurial endeavours. Canterino et al. (2013), in turn, addressed the board role through the board structure by describing the introduction of a non-family board rather than a family-dominated board as a mechanism to reduce organisational complacency.

While case studies on family-firm renewals have offered insights into how the owners, non-family board and TMT members can influence the change process, they have not focused on investigating these actors' behaviours and processes at the board level. Consequently, they have not addressed questions such as how the owners facilitate or hinder the renewal or how the non-family board members perform their board role. Given the role that the board of directors can have in a firm's decision-making and results, a deeper understanding of these issues could help to conceptualise and theorise the potential of key governance actors to influence family-firm renewal and help generate actionable insights for family-firm practitioners.

2.3 Family-firm governance

'The Cadbury Report', Committee on the Financial Aspects of Corporate, 1992, para 2.5 defined corporate governance as '*the system by which companies are directed and controlled*', deeming board members as '*responsible for the governance of their companies*'. In this respect, family-firm boards of directors are no different than those of non-family firms. However, family-firm governance can be understood as two interacting subsystems—namely, the business- and family-governance systems (Aronoff & Ward, 1996; Siebels & Zu Knyphausen-Aufsess, 2012). The business-governance system features similar elements to the business-governance system of any firm: TMT headed by the CEO, board of directors, and the shareholders' meeting (Gallo & Kenyon-Rouvinez, 2005; Neubauer et al., 1998; Siebels & Zu Knyphausen-Aufsess, 2012). Family-firm characteristics such as family members adopting roles as both managers and owners, illiquidity of the ownership stakes, aspiration to transfer the ownership to the next generation, and potential non-financial goals can influence the business governance of family firms (Mustakallio et al., 2002; Siebels & Zu Knyphausen-Aufsess, 2012; Tagiuri & Davis, 1996).

Family governance, in turn, aims to ensure cohesion within the family and that the family possesses a shared vision and consists of a family council and the shareholders' meeting (Gallo & Kenyon-Rouvinez, 2005; Neubauer et al., 1998; Mustakallio et al., 2002; Siebels & Zu Knyphausen-Aufsess, 2012). This study adopts the Cadbury Report's

definition of corporate governance and focuses on the business governance of family firms.

2.3.1 Governance theories and roles of family-firm board members

The terms ‘board tasks’, ‘board roles’, ‘board activities’ and ‘board functions’ are often used interchangeably (Åberg et al., 2019). In a family firm the content of these terms can be viewed through several lenses. The agency theory (Fama & Jensen, 1983a, 1983b; Jensen & Meckling, 1976) focuses on the agency problem created by separating ownership and management. Interest conflict and asymmetries in information between the parties of the managerial contract can give rise to opportunistic behaviour by management, which seeks to maximise their interest instead of advancing those of the shareholders. However, agency theory predicts that when management owns equity in a firm, their interests align with those of the shareholders, and they become disincentivised to misuse company resources for personal benefit. Consequently, it has been suggested that agency costs (defined by Jensen and Meckling in 1976 as costs related to controlling the interest conflict and loss of welfare due to the interest conflict) can be lower for family firms than for non-family firms (Anderson & Reeb, 2003; Chrisman et al., 2004; Le Breton-Miller & Miller, 2006; Sirmon & Hitt, 2003). However, family firms that employ non-family managers may suffer from agency issues similar to those of non-family firms. Furthermore, all family firms, including those with owner-managers, can suffer from family-firm-specific agency conflicts, such as some owners extracting benefits from the firm at a cost to the firm or other owners and negative consequences of altruism (Schulze et al., 2001; Villalonga & Amit, 2006). Additionally, while other non-financial goals and aspirations of family-firm owners can form the basis for unique and valuable resources according to the resource-based view (Chrisman et al., 2003, Sirmon & Hitt, 2003), they also carry the potential to create inefficiencies, and thus can represent an agency cost for non-family stakeholders (Chrisman et al., 2004; Steijvers et al., 2010).

Agency theory calls for executive compensation schemes as well as for the separation of management and control (Fama & Jensen, 1983a, 1983b; Jensen & Meckling, 1976) as a means to control the conflicts of interest. Hence, it underlines monitoring as the board’s key task and values independent board members who collectively possess the necessary competencies to effectively control the management as fiduciaries of all shareholders (Johannisson & Huse, 2000). In the family-firm context, agency theory highlights the role of independent and objective board members who can monitor and control vertical agency problems that may occur between owners and managers, as well as horizontal interest conflicts among the owner groups (Siebels & Zu Knyphausen-Aufsess, 2012; Villalonga & Amit, 2006). While the agency theory emphasises control and monitoring as the key board roles, it does not necessarily exclude an advisory role. Such a role can be considered conflicting if the board’s simultaneous collaboration and controlling of management is viewed as a paradox (Sundaramurthy & Lewis, 2003), or it can be viewed as a role that the board should adopt but still be less important than the control role (Zahra & Pearce, 1989).

Contrary to the agency theory's assumption of agents maximising self-utility, the stewardship theory (Davis et al., 1997; Donaldson and Davis, 1991) suggests that the owners' and the managers' ('the stewards') interests are aligned, as the utility that the stewards gain from behaving in the best interests of the owners and the firm exceeds that of self-serving behaviour (Davis et al., 1997). The board's key role is to use its advisory tasks to support management in advancing the interests of the firm and its owners. The steward's control may even be counterproductive, as it can reduce their motivation to behave pro-organisationally (Bammens et al., 2011; Davis et al., 1997). It has been suggested that family-firm characteristics may make the stewardship theory a particularly applicable alternative for understanding family-firm governance (Corbetta & Salvato, 2004; Eddleston and Kellermanns, 2007). However, research on whether family-firm managers act as stewards or as agents remains discordant and inconclusive (Chrisman et al., 2004; Chrisman, Chua et al., 2007; Schulze et al., 2001; Siebels & Zu Knyphausen-Aufsess, 2012). Contextual factors may also play an important role in determining whether agency or stewardship is more valid (Donaldson & Davis, 1991), and it seems that while a theory can explain a particular case, no single theory has been able to predict a general pattern of behaviour (Nicholson & Kiel, 2007).

In stakeholder theory, those managing or affecting corporate policies are viewed as having a duty to balance the conflicting interests of various legitimate stakeholders so that acceptable solutions can be found (Donaldson & Preston, 1995; Freeman & Reed, 1983). This contrasts with the agency theory's view, which focuses on shareholders' interests. While the stakeholders' expectations for the boards' key role may vary (Huse & Rindova, 2001), the board's role can be defined as that of a mediator in conflicts of interest and providing a forum for achieving cohesion of goals and expectations of various stakeholders. Family firms have been suggested to be particularly prone to relationship conflicts with the potential to reduce family-firm performance (Eddleston & Kellermanns, 2007; Kellermanns & Eddleston, 2004). In this context, family-firm owners can be viewed as an important stakeholder with unique goal sets (Zellweger & Nason, 2008), while the firm's board plays an important role in mitigating and providing resolutions for conflicts (Voordeckers et al., 2007; Siebels & Zu Knyphausen-Aufsess, 2012) between the family members and between the family members and other stakeholders. Hence, non-family board members can adopt the role of an arbitrator in the family-firm board (Voordeckers et al., 2007; Whisler, 1988).

While rooted in different theoretical traditions, both resource-dependence theory (Pfeffer & Salancik, 1978) and the resource-based view (Barney, 1991; Ireland et al., 2003, Sirmon et al., 2007; Wernerfelt, 1984) can be interpreted as suggesting that board members can support the management by providing resources such as advice and knowledge, reputation and external connections. The resource-dependence view suggests that firms are dependent on their environment and various resources they do not control (Hillman et al., 2009; Pfeffer & Salancik, 1978). In order to succeed, a firm must gain access to critical resources (Pfeffer, 1972; Pfeffer & Salancik, 1978). Co-optation occurs as individuals who can access these resources are appointed to the board and identify with the firm and its interests (Pfeffer & Salancik, 1978). In turn, the resource-based view

suggests that a firm's value-creation potential is driven by the valuable and rare resources exploited to form a competitive advantage (Barney, 1991; Ireland et al., 2003, Sirmon et al., 2007). This advantage may be sustainable if the resources are inimitable and possess no substitutes. In the family-firm context, governance scholars have applied both resource-dependence theory and the resource-based view primarily from the resource-provision perspective. Family-firm owners serving on the board may also possess an advantage in providing company-specific knowledge (Kets de Vries, 1993). Non-family board members in turn can be seen as a way to link the company to its environment and to contribute through their diversified experience and skills that complement those of the owners and management (Bammens et al., 2011; Gabrielsson & Huse, 2005; Whisler, 1988).

Team production theory (Blair & Stout, 1999; Kaufmann & Englander, 2005) proposes that firms create value from inputs contributed by numerous stakeholders, producing a product that is more than the sum of separate inputs, the results of which should be distributed so that it benefits not only shareholders but all the stakeholders who contribute resources. In this approach, a firm becomes a focal point rather than serving the interests of any particular stakeholder group (Huse & Gabrielsson, 2012), while the board is expected to assume the role of a mediating hierarchy (Machold et al., 2011). In the family-firm context, Gabrielsson et al. (2016) proposed a team production approach combining team-production theory with a value-chain analysis (e.g. Porter, 1985). This highlights the board's role in ensuring a balanced, long-term view on the firm's value-creation activities as the board members contribute through their diverse competences. The board's key mediating task is to balance non-financial objectives with economic concerns (Gabrielsson et al., 2016).

As discussed above, the board's advisory role, a central interest of this study, features multiple theoretical foundations, unlike the control role that is rooted in agency theory (Bammens et al., 2011). This has contributed to the lack of consensus over how to label the role (Machold & Farquhar, 2013; Van den Heuvel et al., 2006) or what tasks belong to it. Activities related to providing advice to TMT members have been labelled as 'advice', 'strategy', 'resource' or 'service' board roles in the governance literature (see, for example, Bammens et al., 2011; Fiegener et al., 2000; Gabrielsson & Huse, 2005; Hillman et al., 2000; Johannisson & Huse, 2000; Johnson et al., 1996; Van den Heuvel et al., 2006; Zahra & Perace, 1989). This study adopts the term 'advisory role', which encompasses board members' advice and counselling to the CEO and other TMT members.

2.4 Corporate governance as a process

Understanding the relationship between the board of directors and the firm's performance, or value creation, resides at the core of corporate governance research. Predominantly agency-theory-based attempts to link the board structure (often focusing on the ratio of executive and non-executive directors) directly with the firm performance

have yielded limited results (e.g. Hillman & Dalziel, 2003; Huse, 1998). Similarly, while other governance theories have shed light on the content of board tasks beyond the control role, also they have not satisfactorily explained the relationship between the board directors and the firm's performance (Huse & Zattoni, 2008; Machold & Farquhar, 2013). Consequently, there have been calls for multi-theoretic approaches focusing on behavioural matters, contextuality and mediating effects of board processes on value creation (Bammens et al., 2011; Huse et al., 2011; Pye & Pettigrew, 2005; Zattoni et al., 2015).

Corporate governance is defined as '*the system by which companies are directed and controlled*' ('The Cadbury Report', Committee on the Financial Aspects of Corporate, 1992, para 2.5), and the process is defined by the Merriam-Webster (n.d.) dictionary as '*a series of actions or operations conducing to an end*'. Thus, the governance process can be understood as referring to a series of actions and operations aimed at directing and controlling companies. Similarly, board processes refer to a series of actions and operations taken up by the board of directors to serve this purpose.

While the role of process-related aspects in corporate governance has already been highlighted in the early days of modern governance research (see, for example, Mace, 1971; Whisler, 1984), it was the influential papers of Forbes and Milliken (1999) and Finkelstein and Mooney (2003) at the turn of the 21st century that triggered contemporary research on board processes. As boards were now understood as groups governed by psychological and cognitive processes, the focus moved from mere board structure to processes and elements such as teamwork, conflict, cohesion and knowledge-sharing. Infrequent interaction and an uneven distribution of influence among the team members were recognised as factors that may hinder the board's ability to implement an efficient process and perform well (Forbes & Milliken, 1999: Finkelstein & Mooney, 2003). These concepts have been applied in several empirical studies on board performance (see, for example, Bankewitz, 2018; Bettinelli, 2011; Zattoni et al., 2015 discussed in Section 2.4.1 Family-firm board processes), as well as integrated frameworks proposed to study board behaviour and performance (see, for example, Huse, 2005; Huse & Gabrielsson, 2012).

Governance processes can be categorised as formal and informal (Chrisman et al., 2018). Formal governance processes originate in corporate law and other formal governance codes, such as the Finnish Corporate Governance Code (the first one close to its current form was launched in 2003, while the newest one entered into force in 2020), the Sarbanes-Oxley Act (2002) in the US, the Higgs Report (2003) in the UK and the Cromme Code (2002) in Germany. Informal processes, in turn, include governance processes not codified or enforced through formal laws (Chrisman et al., 2018).

Dyadic interaction between the board members themselves and between the CEO and the board members—the focus of this study—can be viewed as a form of informal governance. The dyadic relationship between the board members and the CEOs (some in the context of the CEO/chair dual role) have been studied by Stevenson and Radin (2009), Westphal and Graebner (2010), Westphal and Stern (2006), Westphal and Zajac (1995)

and Westphal and Zajac (1998). Together, these studies represent a *socially informed view* (Westphal & Zajac, 2013, p. 607) compared to what Westphal and Zajac (2013) considered under-socialised governance theories. The studies by Huse (1993), McNulty et al. (2011), Pettigrew and McNulty (1995), Roberts (2002), Roberts and Stiles (1999), Roberts et al. (2005) and, more recently, by Koskinen and Lämsä (2016, 2017) recognised the importance of the relationship between the chair and the CEO in board functionality when the CEO and the chair roles are separated. While these studies have provided important insights, they have also largely dismissed the role of dyadic relations between the TMT and the board members beyond the relationship between the CEO and the chair. Furthermore, apart from the studies exploring the role of venture capital owners serving on the board vis-à-vis the founders or management (see, for example, Gabrielsson and Huse, 2002 and Garg and Eisenhardt, 2017), the dyadic relations between the owners in companies with highly focused ownership, the CEO, and the other board members remain relatively unexplored. Studies on governance-related meetings have revealed that informal, dyadic interaction at the backstage of the formal governance process can play an important role in corporate governance (Johed & Catasús, 2018; Solomon & Darby, 2005; Solomon et al., 2013). However, these studies have been conducted in a different context than this dissertation, as they focus on public companies and the interaction of top management and external governance actors such as shareholders, auditors and financial analysts.

This dissertation also delineates studies concerning the rules of organisational decision-making. Rules can be defined as socially constructed processes rooted in the experience, skills, beliefs, values and memories of the organisational members and invoked in response to internal and external stimuli (Ocasio, 1999). In the context of governance processes, formal rules are based on legal requirements or governance codes, while informal rules include unwritten practices regarding appropriate behaviour during interactions between the TMT and board members (Mace, 1971; Lorsch, 1989; Ocasio, 1999).

Institutional action theory (IAT), as proposed by March and Olsen (1989), focuses on the role of organisational- and individual-level rules. Adherence to the rules proposed by IAT offers an alternative view of the theory of rational choice in explaining organisational decision-making.[3] The IAT suggests that decision-making is a three-step process: First, the situation is assessed, after which a decision-maker confirms the relevant identity they should adopt in the situation, and finally, the decision-makers evaluate which rules they should follow in a given situation. As Ocasio (1999) observed, board decision-making is often characterised by ambiguity, and so rules may be important in steering the board members' decision-making. Formal rules guide the board's statutory duties, such as

[3] As March and Olsen (1989, p. 25) noted, it is also possible that '*rules are followed but choice among rules and among alternative interpretations of rules is determined by consequential logic'*. This view can be considered to endogenise rational choice theory into IAT.

monitoring the audit of annual financial statements and appointing the CEO, but they can also steer board responsibilities in other areas, such as expectations for the board committees (Ocasio, 1999). Informal rules followed by the board members include unwritten working methods, such as not openly criticising the CEO or developing a narrative to serve shareholder interests for justifying board decisions (Lorsch, 1989; Mace, 1971; Ocasio, 1999).

Rules play a role in decision-making by providing guidance for the available solutions (March & Olsen, 1989). However, rules can also hinder change, as routinisation of the organisational actions and establishment of what are appropriate beliefs can make rules overly persist even when the contingencies change (March & Olsen, 1989). While rules provide stability, they can also evolve due to growing organisational complexity, organisational learning and institutional pressures (Zhou, 1993).

The key elements of IAT—namely, decisions made by enacting the appropriate rules, rules being shaped by past experiences and political and cognitive factors influencing rules (Huse, 2007; Ocasio, 1999)—can provide a relevant perspective on organisational decision-making, including corporate governance. The importance of an identity's role represents a particularly interesting aspect of family-firm decision-making, where the identity is of significant importance (see, for example, Gómez-Mejia et al., 2011; Miller et al., 2011; Salvato et al., 2010). However, its role has only been studied to a limited extent.

2.4.1 Family-firm board processes

Similar to governance research in general, research on family-firm boards has been dominated by attempts to establish a direct link between board structure—namely, family involvement in governance—and firm performance (Zattoni et al., 2015). Results have been mixed, conflicting or not suggesting a generalisable direct link between family involvement and firm performance (Gomez-Mejia et al., 2011; O'Boyle et al., 2012). Consequently, the focus has shifted from the board structure to the actual board behaviour (Bankewitz, 2018; Gabrielsson & Huse, 2004; Van Ees, Gabrielsson & Huse, 2009) and to board processes as a mediating factor for board outcomes (e.g. Bettinelli 2011; Gabrielsson et al., 2007; Gabrielsson & Winlund, 2000). However, there are few studies on family-firm board processes. Those discussed below also include Nordic studies relevant for this research, but the scope of the data sample has generally remained on small- and medium-sized enterprises (SMEs) rather than on family firms specifically.

In their study on Swedish SMEs, Gabrielsson and Winlund (2000) demonstrated that the board's involvement and processes, rather than board composition, play a key role in defining the board's ability to perform its tasks. Work division and the board's agenda influence board efficiency. Bettinelli (2011) studied the board efficiency of Italian family firms by focusing on the potential influence of non-family board members. Bettinelli's (2011) results suggested that appointing non-family board members can positively influence effort norms and board cohesion, especially in mature family firms. In contrast,

Zattoni et al. (2015) focused on how family involvement influenced the board processes of Norwegian SMEs. While board processes were generally found to positively influence board efficiency, the study also found that family involvement can adversely impact cognitive conflict but positively affect norms and the use of knowledge and skills. Bankewitz (2018), in turn, examined how the board members' knowledge base affects board performance. The results based on the data of the Norwegian SMEs indicated that firm-specific knowledge possesses a positive relationship with the use of knowledge, while board members' general business knowledge does not contribute to board task performance.

While limited in number, these studies on family firms and SMEs have suggested that board processes are linked to board performance. Additionally, in family firms, the non-family board members' influence on board performance can differ from that of family members serving on the board. However, firm size and ownership structure are not the only contextual factors that can influence governance roles and processes; the firm's life-cycle, leadership, organisational resources and industry (Gersick et al., 1997; Huse, 1998; Huse, 2005; Johannisson & Huse, 2000) can also be of significant influence.

In family firms, governance models are heterogeneous (Daspit et al., 2018), and processes are often more informal than in non-family firms (e.g. Astrachan, 2010; Canterino et al., 2013; Cater & Schwab, 2008; Chrisman, Chua, Le Breton-Miller, Miller and Steier, 2018; Gersick et al., 1997). Hence, while family firms employ formal governance mechanisms such as incentives and monitoring enacted by the board of directors (Chrisman, Chua et al., 2007; Schulze et al., 2001), informal processes can also be important in family-firm governance.

In the family-firm literature, informal governance processes have been studied through concepts of trust, altruism and social networks. Several scholars have recognised trust and altruism as key organising principles for family firms (see, for example, Cater & Schwab, 2008; Karra et al., 2006; Lubatkin et al., 2005; Schulze et al., 2002; 2003; Steier, 2001), while social relations and networks have also been suggested to play a key role in family-firm informal governance (Mustakallio et al., 2002; Vardaman et al., 2018). The study of Mustakallio et al. (2002) suggested that the interaction of family members informally and within certain fora, such as family councils, promotes a shared vision that, in turn, is associated with strategic decision quality.

However, there remains limited research concerning family-firm governance processes in different contextual settings, as well as regarding how and why the influence of family and non-family board members' decision-making can differ. Similarly, little research has distinguished between the formal and informal board processes of family firms and their specific roles in family-firm governance.

2.5 Summary

Generally, there is a consensus that, in many respects, family firms differ from non-family firms. This forms the basis for family firm research as a distinctive research domain. Family-firm governance has largely followed the development of general governance studies, where the focus has gradually shifted from agency theory-based attempts to link board structure directly to firm performance—to instead featuring multi-theoretic approaches focusing on the mediating effects of board processes, behavioural matters and contextuality in relation to board performance and value creation.

The economic importance of family firms coupled with their low survival rates makes strategic renewal a highly relevant topic for practitioners in the field of family firms. The recent decade has also revealed a growing interest among family-firm scholars to study this phenomenon. While these studies have revealed important insights, the role of the board of directors, a key decision-making body for strategic matters of the firm, remains largely unexplored in the context of family-firm renewals. Additionally, while the available research has suggested that owners and non-family members may play distinctive roles in renewals, the micro-processes (many of which occur outside the formal governance process) have only been investigated to a limited extent. At the same time, there has been a call for increased research in a number of areas, including what board members actually do inside and outside the board, board roles and tasks beyond the control role, and the norms and rules that guide board behaviour, both as a group and in dyadic relations. Combined, these serve as the motivational basis for this study.

3 RESEARCH STRATEGY

The objective of this chapter is to introduce the research methodology adopted in this study and to provide argumentation for the internal consistency of the chosen methodology from the perspectives of the research approach, data collection and analysis.

3.1 Research approach

This study builds largely on the interpretivist view that perceives reality as socially constructed. However, it also lends itself to critical realism by accepting that reality exists independently of the subjects, yet also assuming the sense-data to grasp it only imperfectly (Sayer, 1992). This assumption justifies the use of data and source triangulation in order to develop a plausible view of the events studied. Additionally, my research approach assumes that the findings of a case study are not fully idiosyncratic, but that a research design based on case studies can produce conceptualisations and principles that can be structurally similar or identical across the domains (Gioia et al., 2013; Morgeson & Hoffman, 1999). However, while the concepts and principles proposed in this study can also be applicable in other cases, contextual differences can create important limitations, as discussed in Section 3.3 Limitations.

Qualitative research and related methods offer the potential to produce revelatory results (Lincoln & Guba, 1985) and account for context when attempting to understand organisational life (Langley, 1999; Pettigrew, 1992; Yin, 2009). Its use as a research approach has grown over the past decades (Garcia & Gluesing, 2013), and in the studies of dynamic organisational phenomena, scholars have been increasingly developing theories from the bottom-up using highly granular, contextual data (Langley, 1999). Furthermore, in corporate governance, qualitative research is an alternative to quantitative studies, as it does not view the governance components and processes as standard. Instead, it assumes that understanding them requires a context-specific inquiry (Ahrens & Khalifa, 2013).

Case studies offer an empirical research approach that can utilise multiple sources of evidence to understand a phenomenon in its real-life context, including when the boundaries between the phenomenon and context are not evident (Yin, 2009). They can be based on single or multiple cases, and they can include multiple levels of analysis (Yin, 2009). While there are several different methodological approaches to qualitative case studies, they all focus on ‘how do things happen’ rather than ‘what and how much’ (Gehman et al., 2017). In this study, my decision to adopt the case-study approach and focus on a limited number of cases was driven by the formulation of the research questions. While this approach creates limitations discussed in Section 3.3 Limitations, studying the micro-level processes of family-firms’ senior-level decision-making requires highly detailed, in-depth data.

It is not necessary to randomise the selection of case studies, as the purposive method can ensure a selection of cases that enable learning (Eisenhardt, 1989). As I had assessed that the research questions would be best served by an in-depth description of deeply contextualised case data, the key driver for the case companies' selection was that they fulfilled the criteria that reflected the research focus. The companies had to be family-owned, undergoing a strategic renewal, and at the life-cycle when the board can play an important role in family involvement and firm development. The selected cases both comprise later-generation family firms whose main owners are no longer involved in the companies' daily operations. Their involvement is primarily enacted by serving on the board of directors, as is often the case with mature family companies (Gersick et al., 1997). As both firms were undergoing a strategic renewal, the board that plays an important role in the firm's strategic decision-making (Gopinath et al., 1994; Hass & Pryor, 2005) could be expected to be actively involved in the renewal process. Table 2 lists the key characteristics of the case companies, and Table 5 details the research process.

Table 2: Case companies

-	**Founded**	**Key businesses**	**Turnover**	**Geographical focus**	**Number of employees**	**Family involvement**	**Board structure**
Company 1	1921	Lighting controls and luminaire components, integrated solutions	EUR 76m (2016)	Over 97% of sales are generated outside Finland, in other parts of Europe and Asia. The key sites are in Finland and the UK.	Over 200	Controlled by 6 cousins, representing the 4th generation. Family involvement through the board.	2 family members, 4 non-family board members, one of whom serves as the chair.
Company 2	1909	Plywood, sawn timber, chipboard and other wood products	EUR 270m (2017)	Over 80% of the products are exported to Europe, Asia and the Middle East. Production facilities in Finland, Russia and Poland.	Over 1000	The parent company is owned by the 3rd generation and their children. A minority of 1 of the subsidiaries is held by a more diverse group of the same (extended) family members.	2 family members, 3 non-family board members, one of whom serves as the chair.

Another important factor in selecting the case companies was the ability to gain access to the board of directors, a challenge well-recognised by corporate governance scholars (Leblanc & Schwartz, 2007; Zahra & Pearce, 1989). I employed an informal access strategy of contacting the gatekeepers (Leblanc & Schwartz, 2007), which in these cases were the owners as well as the chairs of the boards of the firms. I started the data collection process by explaining the purpose of my study, its methods and my intended ways of working to the owners who serve on the board and the non-family member chairs. Explaining the research ethics was also an important part of these discussions. Afterwards, I contacted the other informants to whom I explained the same matters as I had explained to the owners and the chairs.

Furthermore, the fact that I hold a board seat as a non-family board member in one of the case companies helped ensure immediate trust, easing access to the firm and supporting the data collection for this company. However, this affiliation also created the need to ensure that it would not negatively influence the scientific rigour of the process. When using the data collected from this company, its analysis and the suggested interpretations were reviewed by another researcher involved in writing the articles using data from this company. When applying a largely interpretivist view, it is not possible or even an intention to remove the role of a researcher. Instead, the role of the researcher should receive critical attention. In my research, I made careful efforts to ensure that I would not draw premature conclusions based on my personal experience with the company and its board. This required careful monitoring throughout the research process.

3.2 Data collection and analysis

In this section, Table 3 provides an overview of the data sources, Table 4 lists the interviews conducted and Tables 5 and 6 describe the key research steps of this dissertation. The data collection was completed in stages after the initial research focus was established. As research questions deal with the human experience of organisational processes, my primary method for data collection was semi-structured interviews. This approach assumes that organisational actors living these experiences are ‘knowledgeable agents’ (Gioia et al., 2013, p. 17) who can describe their behaviour and motivations. Furthermore, naturally occurring data such as board agendas, minutes and other materials were used as secondary data, as this provided an understanding of the sequence of events and decisions taken. However, it also excluded insights into the informants’ interactions outside the formal governance process. For this, the actors’ own accounts were necessary. As shown in Table 3, the secondary data also included publicly available data such as firm marketing materials, white papers, media coverage and industry reports. These helped provide an understanding of the companies, their background and business domains.

While the interpretivist view does not consider reflexivity or the informants’ biases as an issue as the positivistic view does, this does not make the interview guidelines any less important, nor does it mean that the researcher should not ensure that they are not seeking to substantiate a preconceived position (Yin, 2009). I paid significant attention to ensuring

that guiding questions were well-thought-through and not guided towards verifying my possible preconceived notions. As the selected approach enabled the modification of the questions as more information was gained, none of the interviews was fully identical in terms of the guidance or actual questions. Instead, the information received in prior interviews often influenced the subsequent interviews. Additionally, some of the interviewees focused on a previously agreed topic, or the interview took a turn towards an in-depth approach as an informant brought up a topic that I thought merited further attention. The interviews also consisted of 'backtracking' (Gioia et al., 2013, p. 26), as I occasionally went back to prior informants to inquire about topics brought up in subsequent interviews.

As shown in Table 4, the informants consisted of all the board members of the case companies, including the owners serving on the board and non-family board members (excluding the writer of this dissertation), as well as selected members of the TMT. Several informants were interviewed multiple times during the years 2017, 2018 and 2019. The interviews were scheduled to last between 60 and 90 minutes and were conducted face-to-face on company premises with a few exceptions. All the interviews were recorded and transcribed. As a result of the interviews, the dataset consisted of a rich array of narratives describing the informants' accounts of the events, as well as behaviours, interpretations and motives from both their own and other organisational actors' perspectives.

Table 3: Data sources

Data source	**Quantity**
Primary data	
Interviews	25 interviews in total, each scheduled between 60 and 90 minutes. A total of 1,232 mb audio recordings, of which Company 1 produced 882 mb audio recordings and Company 2 produced 351 mb audio recordings.
Secondary data	
Board of directors meeting materials (agendas, minutes, presentation materials)	Full board materials accessed through board portals.
Public company materials (white papers on technology, customer magazines, product brochures)	Company 1: 318 pages Company 2: 119 pages
Published history of the founder/company/business unit/industry	Company 1: 1 piece Company 2: 1 piece

Newspaper and magazine stories	Company 1: 4 pieces Company 2: 5 pieces

Table 4: Interviews

Date	**Person interviewed**
2.6.2017	Owner 1, a member of the board, Company 1
29.6.2017	Owner 1, a member of the board, Company 1
18.7.2017	A non-family board member, Company 1
24.8.2017	Owner 2, a member of the board, Company 1
25.8.2017	A TMT member, CFO, secretary of the board, a non-family member, Company 1
31.8.2017	A non-family board member, Company 1
4.9.2017	Chair of the board, a non-family board member, Company 1
18.9.2017	A TMT member, a BU head, a non-family member Company 1
20.9.2017	An ex-CEO, a non-family member, Company 1
25.9.2017	A TMT member, responsible for a business unit, a non-family member, Company 1
13.10.2017	A non-family board member, Company 1
16.10.2017	CEO, a non-family member, Company 1
27.8.2018	Chair of the board, a non-family board member, Company 2
28.8.2018	Owner 1, a member of the board, Company 2
29.8.2018	Owner 2, a member of the board, Company 2
1.10.2018	Chair of the board, a non-family board member, Company 1
19.10.2018	CEO, a non-family member, Company 2
22.10.2018	Owner 1, a member of the board, Company 1
26.10.2018	CEO, a non-family member, Company 1
18.9.2019	Owner 2, a member of the board, Company 2
26.9.2019	Owner 1, a member of the board, Company 1

1.10.2019	Owner 1, a member of the board, Company 2
4.10.2019	CEO, a non-family member, Company 2
16.10.2019	Chair of the board, a non-family board member, Company 2
23.10.2019	A non-family board member, Company 2

Despite their benefits, qualitative studies have also been criticised for lacking scientific rigour (Gioia et al., 2013). Organisations' processual data feature several characteristics that do not simplify its analysis. The data deal with sequential events, it often features numerous units of analysis with varied temporal embeddedness, and it combines dynamic relations, emotions and interpretations (Langley, 1999). All together, these features create a challenging environment for analysing the data and proposing theoretical conclusions while simultaneously providing satisfactory evidence of the scientific rigour of the applied methods.

The data analysis process calls for conceptualising events and observing patterns among them (Langley, 1999). The Gioia methodology (Gehman et al., 2017; Gioia et al., 2013; Nag & Gioia, 2012), my selected method, seeks to support both the discovery of new concepts and scientific rigour. It provides a systematic approach to the case-data analysis and concept development. As an interpretivist method and in line with the epistemological assumptions of this study, it identifies concepts relevant to the people living the experience while also guiding the creation of theoretical constructs and contributions that are of academic interest (Gioia et al., 2013). The Gioia methodology provides a systematic approach to arrive at a first-order data analysis derived from informant-centric terms and then at a second-order analysis based on researcher-induced concepts (Gehman et al., 2017). While a researcher may have preliminary views on the relevant constructs, a researcher is not expected to preconceive what relationships the data will reveal at the beginning of the research process (Gehman et al., 2017).

The first stage of my data analysis included an in-depth review and documentation of both the primary and secondary data to create a plausible view of the key events and their sequence. As Langley (1999) observed, in processual data, an 'event' can take a variety of different abstract or concrete forms. The key events can include, for example, decisions, actions, behaviours and emotions as told by the informants or evidenced by the secondary data. This high-level analysis provided the first tool to organise and understand the initial data. While this step does not belong to the Gioia methodology, I found this necessary at the early stage of the research process. It helped me understand the data I was dealing with while being in line with my earlier described deviation from a strictly interpretivist view that allows for a researcher to develop a plausible view on the sequence of the past events.

The primary data was then subjected to analysis based on the Gioia methodology. Each of the four publications in this dissertation featured a separate data analysis process, although the publications partly shared the same database. The literature on qualitative methods has recognised both the benefits and risks of using data analysis software packages (Welsh, 2002). In four analyses, I first employed either N-Vivo software, a manual analysis or a combination of the two to identify the initial data-driven categories. These categories were based on the initial coding of individual interviews. I made efforts to retain the immediate surroundings and sequence for each coded section (Silverman, 2014). The categories that formed the first-order concepts were each named after a representative quote to retain the informant's voice. I did this in order to avoid imposing my preconceived understanding of how the informants apply their sense-making to their experiences within the scope of this research (Gioia et al., 2013). By seeking similarities and differences between the categories, I was then able to reduce the number of categories while retaining the informant-based labels.

At the next stage of the analysis, in order to arrive at the second-order concepts, I widened the lens through which I studied the data and the constellation of the first-order concepts and took steps to interpret it on a more conceptual level. This called for identifying the larger narrative by studying the data through several alternative theoretical lenses. As Nordqvist et al. (2015) observed, theoretical lenses play an important role in the research process; the assumptions that underlie different theoretical lenses focus our attention and provide structures for interpreting our observations.

I focused, in particular, on the themes that offered novelty in terms of theoretical contributions. I then worked on distilling the second-order concepts further into aggregate dimensions. Together, first-order concepts, second-order themes and aggregate dimensions formed the data structure that illustrated the analytical process I had conducted.

Selecting key theoretical lenses formed an important part of the research process. These theories included a conceptualisation of turnarounds by Schoenberg et al. (2013) for Article 1 and IAT (March & Olsen, 1989) for Article 4. The model of inertia and stress by Huff et al. (1992) offered the conceptual tools for categorising and analysing data, as well as systematically theorising (Michelle, 2007) throughout the research process. The reasons for adopting this framework included its focus on the dynamics that were strongly evident in the data—stability and change—as well as the ability of Huff et al.'s (1992) model to operate on several analytical levels, a characteristic well-suited for analysing complex real-life case data. From the theoretical perspective, the model's focus on the concept of inertia is related to the resistance to change observed in family firms (Jensen, 2003; Le Breton-Miller & Miller, 2006; Miller & Le Breton-Miller, 2005) as well as its processual approach, which aided in analysing the longitudinal data. As the research progressed, it also became evident that the model of inertia and stress helped identify new insights and respond to the research questions.

In interpretative research, data collection and analysis often form an iterative process (Langley, 1999; Gioia et al., 2013). However, each analysis featured a point when additional data that were requested and received offered limited or no new insights when analysed or remained beyond the research focus of this study. While Gioia's methodology recognises the potential for sudden insights as a part of a careful step-by-step analysis (Gehman et al., 2017; Gioia, 2004), I resisted the urge to move too early from the dimensions of the data structure to finalising the dynamic relationships among the emerging concepts and key theoretical propositions. Instead, I ensured that an adequate number of alternative interpretations were considered. Receiving feedback on the draft interpretations formed an important aspect of the analytical process. Early on, I exposed the draft interpretations to scrutiny, including requesting feedback from my research group. Informant member-checking (either individually or as a group), one-on-one and group discussions with seasoned executives and other practitioners and comments from blind reviewers and editors for the publications all comprised important sources for developing and finalising the key theoretical propositions. While Table 5 provides a simplified illustration of this dissertation's research process, Table 6 provides further information on my methods for validating findings and testing interpretations.

Table 5: A simplified illustration of the research process of this dissertation

1 Research design	1.1 Articulating the phenomenon of interest and initial research questions	
	1.2 Studying the existing literature, narrowing the research topic	
	1.3 Choosing the appropriate methods, design of data collection	
2 Data collection	2.1 Selecting the case companies	
	2.2 Collecting the secondary data	
	2.3 Selecting the first set of interviewees	
	2.4 Preparing for the interviews by studying available materials on the firms, drafting interview guidelines, conducting the interviews, continuing to collect the secondary data	
3 Data analysis and theory development	3.1. Organising the primary and secondary data, transcribing the interviews	
	3.2 Reviewing the secondary data	
	3.3 Initial data coding of the interviews and developing	

	informant-centric first-order concepts	**Iterative cycles in stages 1.2, 2.2–5.2** Sharpening research questions, adding interviewees, additional interviews, 'backtracking', additional secondary data, reading the literature
	3.4 Adding theoretical lenses to arrive at second-order concepts	
	3.5 Distilling second-order concepts into aggregate dimensions	
	3.6 Identifying the relationships between the concepts, conceptualisation with the aid of the selected theoretical framework	
4 Writing up the results	4.1 Writing up the results in a coherent way based on the transparent evidence	
5 Feedback and validation (see also Table 6)	5.1 Informant member-checking	
	5.2 Feedback from the other researchers, seasoned practitioners, blind reviewers and editors	
6 Publication	6.1 Publication of articles	
7 Completing the dissertation	7.1 Writing Section 1 of the dissertation, receiving feedback on the section, finalisation	

Adapted from Eriksson and Kovalainen (2016); Gioia et al. (2012); Silverman (2014)

Table 6: Means for validating findings and testing interpretations

Member-checking, review and discussion of the findings with the case company representative	Face-to-face and phone discussions, e-mail correspondence for each article draft (listed as secondary data as selected feedback either extended or corrected earlier data)
Feedback from blind reviewers and editors for each article	Throughout the publication processes
Meetings with a group of seasoned non-executive directors, family-firm practitioners and researchers to discuss and receive feedback on my research.	Through ten group meetings organised by the Boardman network between 2017 and 2020
Research group meetings between the supervisors and researchers	Approximately 2–3 times per academic semester

3.3 Limitations

Contextual differences between cultures and industries, as well as between individual preferences and behavioural models, affect firm governance. Hence, my study intends not to generalise the patterns found in this study directly to other firms but rather to provide concepts that can be used to understand the renewal process from the perspective of the board of directors and the owners of later-generation family firms. While my findings may not apply to all family firms, they can be relevant for later-generation family firms where family involvement occurs through board membership, the board features non-family members and the board actively participates in the firm's strategic decision-making.

The methodology I have adopted in this study also creates certain limitations. While case studies provide the opportunity to investigate contextual factors in detail, other methodologies are better suited to provide replication logic for testing the hypotheses and analysing direct causalities. Furthermore, while interviews provide information regarding the informants' retrospective perspectives on what occurred, studying the directional relationships between informal and formal governance processes would benefit from research approaches such as action research and participant observation, enabling on-time longitudinal data regarding the decision-making process. This would, in turn, enable a more accurate linking of the decisions with the preceding and subsequent actions.

3.4 Research as a personal learning journey

While the process of undertaking doctoral research can be depicted through actions taken and resultant outcomes, it also has important emotional dimensions. Below, I discuss some personal insights I gained during my learning journey.

I have years of experience serving as a board member and a chair, and I feel that my experience helped me define a research area of practical value. However, at the beginning of my research project, I found it difficult to connect my initial idea with the theoretical knowledge. It took a significant amount of reading, reflecting and discussions with my supervisors and other experienced scholars before I could position it in the context of the extant body of knowledge and identify relevant research gaps. While frustrating when I was just enthusiastic about getting started, I now consider this stage an important initialisation to adopting a researcher's mindset.

Having a background in quantitative disciplines from my master's degree (economics and finance), I also had to commit significant time to study qualitative methodologies at the early stage of my research process. These studies that I conducted as a member of an international group of doctoral students not only formed an important step in developing my research design but also allowed me to create connections with other students who were at the same stage of their research process.

I found data collecting to be an energising activity. Interviews, in particular, were unexpectedly engaging events. Understanding the other person's lived experiences calls for highly engaged listening. However, refining my data analysis methodologies took time. The useful feedback that I received on the first draft of my first article marked an important turning point as I began to understand what scientific rigour entails and learned the value of analysing and interpreting the data in a transparent and structured way.

When writing an article-based dissertation, it is difficult to avoid the feeling that each article should neatly build on the previous ones. However, I realised that 'data is as data is' and that as the researcher's knowledge grows, the interpretations may evolve. While this can make a researcher feel vulnerable, I realised that it is critically important to remain open for potential conflicts and alternative interpretations. They can reveal new, critical insights or point towards an inadequacy of earlier interpretations. When handled transparently, I understood that they also help to retain the integrity of the research. My strategies for dealing with these uncertainties included further in-depth data analysis, 'backtracking' existing data, collecting new data and discussing the alternative interpretations with my supervisors and other scholars.

3.5 Assessing the quality of the study

Evaluating a study's quality should not be left to the end of the research process (Eriksson & Kovalainen, 2016), nor should it be viewed simply as a set of strategies to adapt to ensure the study's scientific quality (Brinberg & McGrath, 1985). Hence, I made efforts to ensure that the entire research process was designed and executed relative to the study's purpose and circumstances so as to pursue high scientific integrity (Brinberg & McGrath, 1985).

Eriksson and Kovalainen (2016) distinguished between three different methods of using evaluation criteria for qualitative research: adopting the traditional criteria of research quality (reliability, validity and generalisability) stemming from quantitative research, adopting alternative but common criteria for qualitative research (Guba, 1981) or abandoning the idea of common evaluation criteria for qualitative research altogether, a view found in post-structural and cultural studies in particular. In my research, I adopted the view that the criteria used to assess the study's quality remained dependent on the mode of inquiry. For the studies that view reality as socially constructed, assume that the inquirer and the informant can influence each other, and consider the generalisations to be bound by the context, the criteria of trustworthiness differ compared to a strictly positivistic approach (Guba, 1981). For assessing the quality of the phenomenological studies (which can be considered part of the umbrella concept of interpretivism), Guba (1981) suggested four alternative aspects to be considered: credibility to produce plausible findings, transferability to ensure context-relevant findings, dependability to

guarantee stable results and confirmability to ensure that no investigator bias remains unaccounted for.

Throughout the research process, I employed several measures to ensure my study's trustworthiness. First, I utilised several methods to establish **the credibility** of the research. Even though the triangulation method is primarily associated with the idea that there is only one version of reality (Eriksson & Kovalainen, 2016), my study largely assumes an interpretivist view. However, I utilised the naturally occurring secondary data to establish a plausible view of the key events' chronology. The retrospective biases do not form a similar challenge as they would in the strictly positivistic research as they are an important part of the human experience; nevertheless, I made efforts to identify the retrospective biases in various fashions so as to be aligned with my assumption that reality exists independently of the subjects. Yet, they may not grasp it perfectly (Sayer, 1992). The fact that there were many informants provided a triangulation of sources. I compared the data from semi-structured interviews against primary data such as board agendas, minutes and presentation materials as part of the triangulation method. Analyst triangulation also occurred, as two other researchers were involved in writing the articles. I further conducted member-checking, as I described in Section 3.2.

Second, to ensure this study's **dependability**, I exposed the data collection, data analysis and results to be reviewed and discussed in the research team meetings attended by my supervisors and several experienced researchers not directly involved in this study throughout the research process. As the dissertation comprises four publications, blind reviews of the articles also played a significant role in ensuring this study's dependability. The expertise of the blind reviewers and the journals' editors provided invaluable feedback for improving each article and ensuring that the articles' readers would be provided adequate information to convince them that the research process was logical and traceable (Eriksson & Kovalainen, 2016).

Third, I approached this study's **transferability** by ensuring that collected data were highly granular and that there was a detailed description of the cases in each of the published articles to enable transferability of judgement. I carefully assessed the context-relevancy and limitations of my research, which I described in detail in the articles and a summarised form in Section 3.3 Limitations. As some of the concepts used in my study (strategic renewal, family firm, advisory role) lack clearly agreed-upon definitions or had several alternative definitions, I also paid special attention to ensuring the clarity of my terminology.

Fourth, I ensured my study's **confirmability** via a solid audit trail of the data collection and analysis. This included taking great care in documenting and archiving the interview guidelines and interview recordings, as well as documenting the correspondence with the informants outside the interviews when conducting data-checking or receiving additional information, professionally transcribing the interviews and writing descriptions of the data analysis conducted at different stages of the research process. I also addressed this study's reflexivity, paying special attention to the data collection and analysis of the

findings based on the case company's data, where I serve on the board of directors. First, I collected this company's data only for use in articles dealing with the role of the owners and the management and not the role of the non-family board members. Second, when using the data from this company, the analysis and suggested interpretations were reviewed by another researcher involved in writing these articles. Third, throughout the collection and analysis of the data from both companies, I made significant efforts to conduct critical self-reflections in order to address my possible pre-conceived notions regarding the data and their interpretation. Thus, in the data analysis, I avoided early hypotheses looking for 'telling examples' (Silverman, 2014, p. 110) and actively challenged myself to consider alternative interpretations.

4 RESULTS

This section summarises the key results of this study. My study's objective was to deepen the understanding of family-firm strategic renewals in a way that builds on and extends the extant body of knowledge in a theoretically solid fashion and provides relevant insights for practitioners. I intended to accomplish this by exploring the role of the members of the board of directors in family-firm strategic renewals and by examining the dynamics between the owners who serve on the board, non-family board members and the CEO. The overarching research question inquired about the owner-CEO-board of directors' roles and dynamics in the family-firm renewal process and how they influence the renewal process. Figure 3 depicts the focus of this study, which concerns the interaction of key governance actors of a family firm—namely, family members and non-family members serving on the board as well as non-family CEOs—and a key result demonstrating that this interaction can contribute to cumulative inertia and stress (Huff et al., 1992) that steer the renewal process.

My study demonstrates that the CEO, the owners and non-family board members each play a distinct role vis-à-vis each other. These roles evolve as the renewal proceeds. After the owners have initiated the renewal, the chair—a non-family board member—orchestrates the board decision-making so that a firm led by the CEO can move from one renewal state to the next. Non-family board members and the owners serving on the board both engage in stress-inducing and inertia-creating actions within informal and formal governance processes. The influence of the owners' behaviour is magnified by the equity control and authority attributed to the owners' role. In addition, their long-term commitment to the company carries symbolic value in the eyes of non-family members both inside and outside the organisation. The non-family board members, in turn, play a key role through the variety of advisory tasks they can undertake during the renewal process. Informal rules steer the actors' behaviour.

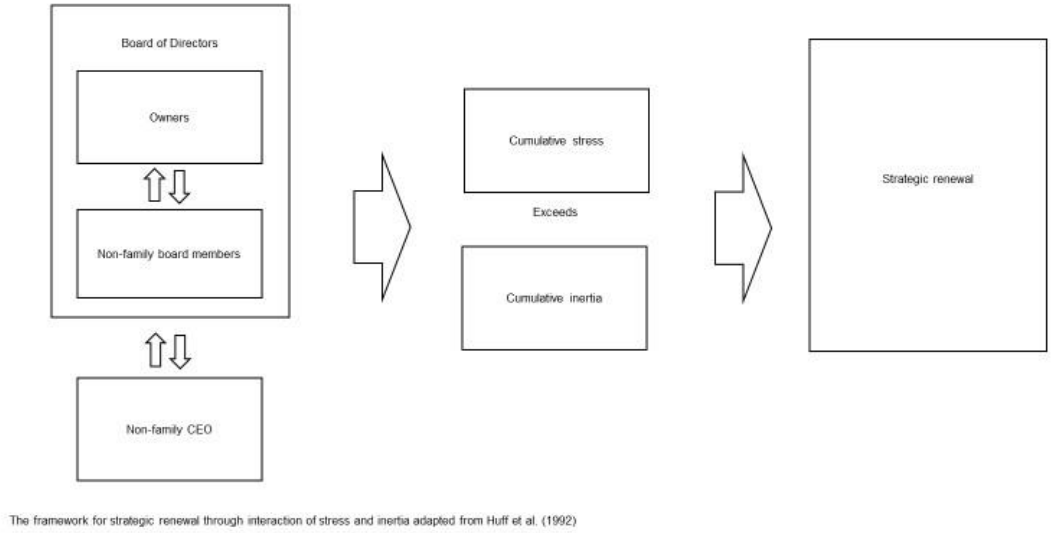

Figure 3: Family-firm strategic renewal—The role of the interactions between key governance actors

The left-hand column in Table 7 shows how I split the overarching research question into three more focused research questions, and the column on the right side summarises my key findings.

Table 7: Overview of key results

Research question	Key findings
RQ1a. How does the behaviour of family-firm owners influence strategic renewal?	By properly timing their influence, owners can play a resource role and both trigger and support the renewal by actions that stimulate and create stress or stabilise and create commitment. Well-designed governance structures and processes can form a sustainable platform enabling the owners to exercise discretion and influence transparently.
RQ 1b. How do the owners make decisions regarding the renewal process, and how does this influence the strategic renewal process?	The informal rules sustain family tradition and transfer experience over generations, as well as depersonalise the use of power. Family-firm owners' rules form a hierarchy and can both facilitate change and form a source of inertia in family-firm strategic renewal.
RQ 2. How do non-family board members enact their advisory role in family-firm	Through their advisory role, non-family board members can play an important role in supporting the CEO and the owners in bringing about the change.

strategic renewal, and how does this influence the strategic renewal process?	The role, content, intensity and locus of non-family board-members' advice evolves as the renewal proceeds, reflecting the stage of the renewal process.
RQ 3. Why and how do family-firm CEOs, chairs and owners interact with each other outside the boardroom, and how does this influence the strategic renewal process?	Dyadic interaction at the backstage of the formal governance process offers the chair and the owners privileged access to influence the content of board decisions directly before, after and between the board meetings. The board decision making can be viewed as a multi-step process intertwining informal and formal processes and involving board members to varying degrees. Informal processes have the potential to conflict with the formal board processes. To avoid this, the actors self-regulate their behaviour through informal rules. However, not all risks are addressed. In the context of strategic renewal, the dyadic relations can provide a channel for informal influence for the chair and the owners. Dyadic interaction can offer relational and emotional benefits that may not necessarily be achieved through larger group interaction.

Research question 1a: How does the behaviour of the family-firm owners influence strategic renewal? Article 1 focuses on the owners' role at different stages of family-firm renewal. The results indicate that the owners can adopt an important resource role, as they possess the potential to influence the interaction of cumulative stress and inertia (Huff et al., 1992, 2000). By timing their influence properly, the owners can trigger and support the renewal by adopting behaviours that push the renewal through its different stages. To do so, the owners take actions that stimulate and create stress or stabilise and create a commitment to the new strategy.

At State I (Huff et al., 1992), the owners can be better positioned than non-family management and board members to trigger the change, as their in-depth knowledge of the firm and motivation to protect the family heritage is coupled with an authority to enforce change activities. My data suggest that, in the early stages of the renewal, the owners can induce stress by changing key decision-makers, including the chair of the board, other board members and the CEO. As the renewal alternatives are being developed and evaluated, my study reveals that the owners can assume an active role in influencing the change strategies proposed by the CEO. For a new strategy to be accepted, its execution must be believed to produce satisfactory results and its benefits to overweigh the risks (Huff et al., 1992). In the context of family-firm renewal, the new strategy must also be aligned with the owners' shared vision (Canterino et al., 2013). My study suggests that the owners' early involvement in evaluating the alternatives can promote this, as the owners can influence the CEO's proposals before they are presented to the board. Later, when the CEO seeks the board's approval for the proposed new direction, the data demonstrate that the owners can facilitate renewal by expressing their support for the radical measures proposed by the CEO.

The above actions induce stress. However, as the change activities are being decided and are on their way in States III and IV (Huff et al., 1992), the owners can also take inertia-inducing actions. The owners can provide stability and help inspire commitment to the new strategy. A family firm's time horizon also reflects the past, not just the present or the future (Johannisson & Huse, 2000), and the present and past are viewed in relation to 'who have we been' (Brunninge, 2005, pp. 299-300; Gioia et al., 2000). My study shows that when a family firm is attempting a renewal, the owners can create a bridge between the family firm's past and future by means of narratives linking past strategies with the new ones. The owners can also engage in symbolic acts demonstrating continuity in the midst of disruptive change. These activities can play a role in creating commitment to the new strategy not only among the owners (including family members who are not involved in the firm's management or governance) but also among non-family employees and external stakeholders.

Several scholars have recognised that board member interactions are not restricted solely to the boardroom (see, for example, Gabrielsson & Huse, 2002; Huse, 1998, 2005, 2007; Huse & Zattoni, 2008; McNulty et al., 2011; Pettigrew & McNulty, 1995). My study similarly demonstrates how the owners who serve as board members can exercise their influence both inside and outside the boardroom. In some actions (e.g. decisions requiring shareholders' meetings, such as appointing board members), the owners make the decisions between themselves; in others, they exert their influence through their board seat; and in still others, they influence the chair or management indirectly. My data suggest that, while the early renewal actions (decision to seek renewal, changing of the chair) are made among the owners, the centre of gravity moves to the board after the new chair is appointed. After appointing a new CEO, the owners exercise their influence directly on the CEO outside of board meetings, as well as through their roles in the boardroom. Effective governance structures and processes can facilitate the owners' exercising discretion and influence transparently.

Hence, my study reveals that the owners can play an important role available only to family-firm owners in triggering and facilitating family-firm renewal. They can do this by adopting both stress- and inertia-inducing activities, both inside and outside the boardroom, directed towards the CEO, the other board members and external stakeholders.

Research question 1b: How do the owners make decisions regarding the renewal process, and how does this influence the strategic renewal process?

Several scholars have suggested that real-life decision-making may not be fully explainable by rational choice theory, which calls for predicting the future and formulating a preference function perfectly (e.g. March, 1994; March & Olsen, 1976, 1989; Ocasio, 1999; Zhou, 1993). Article 4 focuses on owners' informal decision-making rules both inside and outside the boardroom. As predicted by the IAT, the data suggest that the family-firm owners' adopted identities and related informal rules can be closely related to their decision-making on family-firm-related matters. My study further demonstrates that owner identity can dominate the owners' actual and expected behaviour in family-firm decision-making. Furthermore, while the owners can also adopt other contextually relevant identities (Ashforth & Johnson, 2001; Hillman et al., 2008), such as that of a board member or an ex-executive (someone who has served as an executive in the past), it can be difficult for a family member serving on a family firm's board to adopt other identities.

Rules applied to decision-making relate to the enactment of an identity (March & Olsen, 1989). My data suggest that the informal rules that family-firm owners apply in their decision-making can reflect experiences that the family members have accumulated over the generations. My study identifies four categories for the informal decision-making rules that the owners apply in their decision-making in family-firm renewal: the foundational premises of family-firm ownership (control, longevity and prosperity), governance structure, governance processes and content (strategies) of a business.

I suggest that by adopting decision-making rules, the owners' past learnings can become accessible to the family members with no direct personal experience, and thus can facilitate learning across generations in family firms. As the rules become institutionalised, they are no longer directly related to the personalities and desires of individual family members, or even those of a generation, and so they can depersonalise the use of family members' power.

Rules are related to the routinisation of activities (March & Olsen, 1989) and reliance on them can continue regardless of the changes in contingencies. However, rules can also facilitate decision-making, since they provide readily available solutions (March and Olsen, 1989; Ocasio, 1999). The findings of my study provide evidence regarding how a family firm's decision-making rules can influence the owners' decision-making in the context of strategic renewal. The data indicate that the decision-making rules can help sustain family experience and tradition. However, the rules can also trigger and facilitate renewal. The bi-directional influence of the rules (both creating stability and facilitating the decision-making) has previously been recognised by several other scholars as well (March & Olsen; 1989; Ocasio, 1999). I propose that the rules can also trigger change. My data suggest that the owners initiate the risky endeavour of strategic renewal as their ability to adhere to a foundational rule that calls for guarding the prosperity and longevity

of a family firm is being threatened. Hence, as discussed in Article 1, the owners can be better positioned than non-family members to initiate renewal at State 1 (Huff et al., 1992), while Article 4 provides a new pragmatic yet theoretically solid perspective regarding the underlying triggers for the owners to abandon the status quo and initiate a risky change.

Once the strategic renewal is triggered and alternative strategies are evaluated and implemented during states III and IV (Huff et al., 1992), my study suggests that the owners evaluate the proposals based on their decision-making rules. As the radical measures are considered and executed, the data indicate that the owners' decision-making rules can support the renewal by providing the owners with a sense of order, as suggested by March and Olsen (1989) and Ocasio (1999). The data in this study further demonstrates that strategic renewal is executed so that it is aligned with the owners' rules. The results of the study suggest that significant changes to the rules must be acceptable to the owners.

My data reveal that the owners can accept changing or modifying some rules more easily than some other rules. Based on this observation, the rules can be understood to form a hierarchy. While the decision-making rules related to the foundational premises of family-firm ownership can be highly static, family-firm owners may find it easier to allow alterations to the rules that relate to the content (strategies) of the business. The rules that deal with governance structure or processes can be more static than content rules, but less so than rules related to the foundational premises of family-firm ownership.

My study also finds that the owners' decision-making rules are not necessarily stress- or change-inducing per se, but the same rule can induce stress or inertia (Huff et al., 1992), depending on how and when the owners apply it. For example, when renewal is initiated during State I (Huff et al., 1992), the owners base their decision on triggering the change to the rule concerning longevity and prosperity. In this case, the rule is applied in such a way that it induces stress. However, at later stages of the renewal, the same rule is applied in an inertia-inducing manner, as the rule forms a basis for the owners symbolically representing the family firm and demonstrating a commitment to the new strategic direction. Translating a decision-making rule into action can also shift as the renewal proceeds. Treatment of employees, an important matter for many family firms (see, for example, Le Breton-Miller & Miller, 2006; Miller & Le Breton-Miller, 2003), forms the basis of the rules concerning fairness in regard to employees in the case companies. The data reveal that during State I, during the status quo, the rule can be applied to favour long tenures and positive benefits that may induce inertia, while during State IV, when redundancies are made, it can be used to guide fair-dismissal processes and thus facilitate stress-inducing activities.

As such, I suggest that owners can apply rule-based logic and can primarily adopt an owners' identity in their decision-making during family-firm renewal. The rules can form a hierarchy based on their stability, and they can be applied in both inertia- and stress-inducing ways.

Research question 2: How do non-family board members enact their advisory role in family-firm strategic renewal, and how does this influence the strategic renewal process?

When a company needs to renew its strategies due to changes in the environment or because of internal issues, there may also be a need to complement the firm-specific knowledge (Kets de Vries, 1993) with external experience (Bammens et al., 2011; Gabrielsson & Huse, 2005; Whisler, 1988). As discussed in Article 2, my study indicates that the advisory role of non-family board members can play an important role in family-firm strategic renewal and that this role evolves as the renewal proceeds.

My study finds that the advisory role of non-family board members can be both inertia- and stress-inducing (Huff et al., 1992), depending on whether the advice provided is within the boundaries of the current strategy or whether it seeks to extend its boundaries. The data suggest that during State I (Huff et al., 1992), non-family members can facilitate commitment to the current strategy, as they may shy away from suggesting radical changes before the owners express their desire for renewal. However, once the owners trigger the change by disclosing their dissatisfaction with the current strategy and appointing a new chair, the non-family members can take up advisory tasks that induce stress, and thus facilitate change. During States II and III (Huff et al., 1992), the non-family board members advise on best practices and standards of professional practices they learned from other companies, support management in acquiring top talent, and advise on alternative renewal strategies both inside and outside the boardroom. This advice can play a key role in challenging the strong mental models (Barr et al., 1992) and reduce the risk of satisficing behaviour when alternatives are being evaluated (Cyert & March, 1963; Simon, 1956). The data suggest that, as the firm enters State III (Huff et al., 1992), the intensity of non-family board members diminishes, returning to being a source of inertia as the focus of the advice returns to generating commitment to the new strategy through tasks such as one-on-one mentoring of the CEO.

The chair plays a key role in ensuring board efficiency (e.g. Huse, 2007; Gabrielsson et al., 2007), and the importance of the relationship between the chair and the CEO is well-recognised (Huse, 1993; Koskinen & Lämsä, 2016, 2017; McNulty et al., 2011, Pettigrew & McNulty, 1995; Roberts, 2002; Roberts & Stiles, 1999; Roberts et al., 2005). The findings discussed in Article 2 provide further evidence in the family-firm context, as the data indicate that the chair significantly influences collaboration between the owners, non-family board members, and CEO or other TMT members.

Hence, my study reveals that non-family board members can enact their advisory role through several advisory sub-tasks, the influence, intensity and locus of which evolve as the strategic renewal of a family firm proceeds. My data also suggests that the stress-inducing advisory role of non-family board members is not enacted prior to the owners expressing their desire for radical change. Therefore, while non-family board members can play an important stress-inducing role during States II and III (Huff et al., 1992)

through their advisory tasks, this study does not provide evidence that non-family board members' advise would play a key role in initiating the change during State 1 (Huff et al., 1992).

Research question 3: Why and how do family-firm CEOs, chairs and owners interact with each other outside the boardroom, and how does this influence the strategic renewal process (Research question 3, 'RQ3')?

While research questions 1a, 1b and 2 focused on the behaviour and actions of two distinct subsets of board members—the owners and non-family board members—my research question 3 focused on dyadic pairs that mix these subsets. I suggest that the CEO, chair and owners form an important coalition, whose interaction within both the formal and informal governance processes can significantly influence family-firm governance. My study finds that, compared to other board members, dyadic interaction can provide the chair and the owners serving on the board with privileged and informal access to influence decision-making before, after and between the board meetings. This dyadic interaction at the backstage of the formal governance process serves as preparations for, complements and clarifies the formal governance process—namely, the board meetings. I suggest that family-firm governance and decision-making can be depicted as a process where informal and formal intertwine. Depending on their status, board members participate to varying degrees in the informal process. The chair plays a highly active role, followed by the owners, while non-family board members participate in the informal process primarily when acting in an advisory role related to their specific skills.

I also propose that, as dyadic interaction as backstage activity is often less transparent than interaction within a formal governance process, it has the potential to contradict or bypass formal governance. The study reveals that in order to remain within what they consider 'good governance', the CEO, chair and owners self-regulate their own behaviour through informal rules. These rules stipulate that, for example, the decisions deemed to belong to the board agenda are not taken outside the boardroom, or that the board's chair should be aware of the frequency and content of the discussions between the CEO and the owners outside the boardroom. The data indicate that the three key actors share an understanding of these rules.

Overall, my study suggests that the owners and the chair can enjoy privileged access to the CEO through frequent dyadic interaction. This can produce several benefits: information asymmetry between the actors is reduced, and there is an opportunity for a dialogue without the pressures experienced in the boardroom. I further demonstrate that, in the context of strategic renewal, the dyadic relations can provide a channel for informal influence: the chair and the owners can both use their one-on-one discussions with the CEO and with each other to influence the strategic proposal prior to and following formal board decisions. In addition, it is shown that dyadic interaction may provide relational and emotional benefits that are not available through larger group interaction. Dyadic interaction may serve as a safe place to discuss friction experienced during within formal board meeting. It can also provide a forum for the owners to discuss with the chair other

matters that are beyond pure economic rationality but that can influence the owners' decision-making.

However, my study also recognises that dyadic interaction between the CEO, chair and owners can align the views between them or reduce the number of options presented before the board as a coalition begins discussions on the matter. This study depicts this as a situation wherein the CEO's proposals to the board and the board decisions remain within 'Overton's window'[4] (i.e. within what the owners or the chair consider acceptable options). The informal rules adopted to ensure adherence to what is considered 'good governance' do not address this risk.

[4] A concept named after Joseph P. Overton by Joseph Lehman in the Mackinac Center for Public Policy.

5 CONCLUSIONS

5.1 Discussion and theoretical implications

The findings of my study respond to the research directions indicated in Section 1.2. While a limited amount of prior research directly connects family-firm board members' behaviour with the implementation of renewal strategies, my study investigates actual renewal behaviours in later-generation family-firm boards. The study accordingly provides a unique perspective for understanding family-firm renewal as a teleological process from the perspective of a firm's senior-most decision-making group—namely, the board of directors. It further recognises that the board influence occurs through a dynamic interaction between individual board members and the CEO. It differs from previous family-firm renewal studies that have focused on the role of executive management or have viewed the owners' role as either predominantly champions of change or as a key source of resistance to change. Unlike previous research, my study also provides a micro-level view on how the owners who serve on the board and non-family board members influence the renewal at its different stages, and how the board decisions are made. I discuss four key contributions of this study in greater detail below.

First, my study responds to calls for new insights into the content and antecedents of family-firm renewals (see, for example, Canterino et al., 2013; Bégin, et al., 2010; Salvato et al., 2010; Sundaram, 2019), as this study provides a novel approach to understanding the roles of stability and change in the context of family-firm renewal. Many family-firm scholars have observed that family-firm characteristics, such as an emphasis on tradition, long-term focus and strong mental models can facilitate complacency in family firms (Canterino et al., 2013; Jensen, 2003; Le Breton-Miller & Miller, 2006; Miller & Le Breton-Miller, 2005). Both Jensen (2003) and Miller and Le Breton-Miller (2005) recognised the double-edged character that focusing on continuity and tradition can possess. Jensen (2003) attributed tradition to habitual behaviour that can serve high standards of performance or present a barrier for necessary change. Miller and Le Breton-Miller (2005) conceptualised family-firm complacency by suggesting that while family-firm owners' focus on continuity can manifest itself in a positive manner that supports sustainability, it can also take the form of negative stagnation that reduces the likelihood of success. Canterino et al. (2013) and Cater and Schwab (2008), in turn, proposed that when a firm attempts to rejuvenate its strategies, overcoming this stagnation becomes a key task of non-family leaders and advisers.

My study adopts the concept of inertia as proposed by Huff et al. (1992), which considers inertia as commitments that enable action without disrupting the status quo, as it routinises practices, but also as a necessity to create an organisational commitment to the selected firm strategy. I propose that owners serving on the board and non-family board members should not be categorised as agents that are strictly a source of complacency or as champions of change, and that it is not solely the stress-inducing actions of these actors that facilitate the renewal process. Instead, the influence of the actors' behaviour on the

renewal depends on the context and timing of their actions and behaviours. The stress-inducing behaviour of family-firm owners can be necessary to trigger the change, as non-family members are less likely to request radical actions prior to the owners expressing such a desire for change. During later stages of the renewal, the owners' inertia-inducing actions can play a key role in creating a commitment to the new strategy. Similarly, non-family board members take up both inertia- and stress-inducing advisory tasks that can facilitate the renewal once the owners have initiated the change. Hence, I provide an alternative perspective on the family-firm renewal literature, which has typically viewed non-family members, and especially non-family CEOs, as the key agents for overcoming inertia induced by the family members' focus on tradition and consensus (Canterino et al., 2013; Cater & Schwab, 2008). My study further reveals that the family members serving on the board may be better positioned to trigger the change, but afterwards, when timing their actions properly, both the owners and the non-family board members can facilitate the renewal through specific change-promoting and commitment-creating behaviours. In this way they can support the CEO in rejuvenating the firm strategies. Overall, instead of focusing on the role of a single leader, non-family member (e.g. Canterino et al., 2013) or family champion (Salvato et al., 2010), I depict renewal as a multi-agent teleological process and provide a unique perspective on how a family firm's board members influence family-firm renewal in distinctive roles they can adopt regarding the complementary forces of inertia and stress.

Second, by focusing on the micro-processes of the decision-making, I provide new insights regarding how family-firm owners make decisions and how this influences the renewal. The study builds on earlier views concerning the bipolar influence of family-firm ownership on the ability to renew and change the firm (Cater & Schwab, 2007; Miller and Le Breton-Miller, 2005; Salvato et al., 2010) by proposing a theoretically solid method of capturing an intangible aspect of family-firm decision-making that can produce this result. As Jensen (2003) discussed tradition and habitual behaviour that operates at the 'unconscious' level of family-firm owners, I suggest that informal rules can represent an important source for preserving and transferring family-firm tradition over the generations.

While Salvato et al. (2010) highlighted the role of an individual family member as a necessary change champion, I propose that the informal rules can depersonalise the use of power, as the rules are also available for the family members without direct personal experience regarding past decisions. In addition, I suggest that following the rules can also trigger change when the family owners' ability to adhere to the rules is at risk. This represents a novel interpretation for why family-firm owners, whose firms are often suggested to display greater risk aversion than non-family firms (Hiebl, 2013), are willing to initiate a risky endeavour of strategic renewal. Furthermore, my study provides further evidence of the rules facilitating decision-making by providing a sense of order and ready solutions for new situations (March & Olsen, 1989; Ocasio, 1999). The owners' behaviour can be interpreted through a rule-based perspective, as this study reveals that none of the rules applied by the owners are stress- or inertia-inducing per se, but their influence remains dependent on the timing and how the rule is translated into behaviour.

I further propose that if the owners decline to alter the rules when contingencies change, and the strategy no longer fits the new environment, the owners' adherence to rules can hinder change. By analysing the owners' behaviour through observed decisions and actions (e.g. nominating a new chair of the board or expressing commitment to the new strategic direction) as well as underlying rules forming the basis for the decisions, I provide a more nuanced view of family-firm owners in family-firm renewal than depicted by the extant literature, which has traditionally portrayed owners as a source of either change and entrepreneurial orientation (e.g. Bégin et al., 2010: Salvato et al., 2010) or complacency and resistance to change (e.g. Canterino et al., 2013).

As strategic decision-making belongs to the board agenda (Gopinath et al., 1994; Hass & Pryor, 2005), including the decisions and approvals related to rejuvenating firm strategies, the context of strategic renewal suggests active board involvement. As a third contribution, I provide new understanding regarding the micro-processes of family-firm governance. In doing so, I respond to calls for understanding what boards actually do inside and outside the boardroom, (e.g. Åberg et al., 2019; Bankewitz, 2016, 2018; Gabrielsson & Huse, 2004; Huse et al., 2011; Mace, 1971; Machold & Farquhar, 2013; Van Ees et al., 2009). First, my study furthers the understanding of the content of the board's advisory role and tasks, along with how the board processes relate to these (Åberg et al., 2019; Bankewitz, 2016, 2018; Machold & Farquhar, 2013). While earlier studies on family-firm renewals have highlighted the role of non-family executive management in carrying out the radical organisational change process (Canterino et al., 2013; Cater & Schwab, 2008), this study reveals that non-family board members, non-executives, can also play an important role in supporting the CEO and the owners in family-firm renewal. I also suggest that this advisory role evolves as the renewal moves from State I towards State IV (Huff et al., 1992). In this way, I build an understanding regarding the board role's involvement within a firm life-cycle (renewal), providing a new aspect compared to the studies that have focused on the board role's evolution between firm life-cycles (e.g. Johannisson & Huse, 2000; Huse, 1998).

At a granular level, the approach I have adopted reveals how the advisory role comprises several sub-tasks performed by non-family board members both inside and outside the boardroom, thus highlighting that spatial separation also plays a role in addition to the temporal separation (Machold & Farquhar, 2013) of the board roles and tasks. While the governance literature has recognised the importance of both control and advisory roles (e.g. Åberg et al., 2019; Hillman & Dalziel, 2003; Machold & Farquhar, 2013; Roberts et al., 2005), there remains only limited evidence concerning how the two roles are reconciled in practice. My study finds that while temporal and spatial separation are both important within a task, task-interrelation (Åberg et al., 2019; Roberts et al., 2005), where enacting an advisory role supports the enactment of the control role, also occurs and facilitates effective board members' contribution.

Fourth and finally, I respond to the calls for furthering the understanding of board processes and how the board roles relate to these in specific contexts (e.g. Åberg et al.,

2019; Bammens et al., 2011; Bankewitz, 2016, 2018; Gabrielsson & Huse, 2004; Huse, 1993; Huse et al., 2011; Machold & Farquhar, 2013; Machold et al., 2011; Zattoni et al., 2015). Informality of processes has been recognised as a key character of family firms (e.g. Astrachan, 2010; Canterino et al., 2013; Cater & Schwab, 2008; Chrisman et al., 2018; Gersick et al., 1997). Similarly, several scholars have observed that not all board members' interactions occur in the boardroom (Gabrielsson & Huse, 2002; Huse, 1998, 2005, 2007; Huse & Zattoni, 2008; McNulty & Pettigrew, 1999; McNulty et al., Morris, 2011; Pettigrew and McNulty, 1995) and that board decision-making represents a long process (Pettigrew, 1990; McNulty & Pettigrew, 1999). However, the interrelation of these phenomena has only scarcely been studied. I provide further evidence that not all board contributions of significant importance occur in the boardroom and reveal how the dyadic relations at the backstage of the formal governance process between the CEO, the chair and the owners form the backbone of an informal governance process, as well as how informal and formal processes intertwine. While my study indicates that informal processes can facilitate information exchange between the CEO, chair and owners, helping the chair and owners enact their board roles effectively, it also suggests that this interaction can increase information asymmetry between the board members. Hence, I provide a new aspect to a recognised family-firm problem that relevant discussions may occur among family members outside the board meeting (Bettinelli, 2011; Gersick et al., 1997) by suggesting that in addition to the family members, the triad of the CEO, chair and owners can form an important coalition through their one-on-one relationships. While privileged access to information can help the chair and owners effectively enact their board roles, it can also produce negative implications. I suggest that dyadic interaction between the CEO, chair and owners can align the views between them or reduce the number of options presented before the board as a coalition begins discussing and deciding on the matter. As a result, fewer alternative courses of action may be proposed and fewer different opinions expressed. I identify the risk of the 'Overton's window'[5] as a novel source of reduced cognitive conflict, a recognised factor in decision-making inefficiencies (Barroso-Castro et al., 2017; Finkelstein & Mooney, 2003; Forbes & Milliken, 1999). My study also shows that dyadic interaction can provide important emotional and relational benefits before and after the formal board meetings. My data suggest that dyadic interaction between the key governance actors can be considered as 'meetings-on-meetings'. This finding is linked with earlier suggestions of backstage interaction as a way to smooth out interaction at the front-stage governance-related meetings (Graaf, 2018; Johed and Catasús, 2018). I also provide evidence of dyadic interaction offering a platform for assuming different roles in a more versatile way than a formal board meeting linking the findings to the owner and the chair's response flexibility to issues that emerge in family-firm governance. By these proposals, I provide important insights into how board dynamics depend not only on board behaviour as a team (Finkelstein & Mooney, 2003; Forbes & Milliken, 1999), but that one-on-one and

[5] A concept named after Joseph P. Overton by Joseph Lehman in the Mackinac Center for Public Policy.

sub-team dynamics in the interaction outside the boardroom can influence the decision-making before it formally takes place by the board as a coalition in the boardroom.

These findings demonstrate that the empirical studies exhibited as publications in this dissertation add depth to an as-yet limited pool of empirical studies exploring how family firms can renew themselves and how a family-firm board can influence this process.

5.2 Managerial implications

My findings do not suggest that it would be possible for any governance actor to fully control a complex cognitive process of underlying forces of renewal, stress and inertia. However, they do indicate that the board members' behaviour, including both owners and non-family board members, can facilitate strategic renewal by properly timed actions that further change and commitment. Not all inertia is negative when renewal is involved. Once the renewal has been triggered and the execution is underway, inertia is needed in order to generate a commitment to the new direction. Family members can be particularly well-positioned to induce this and provide a feeling of continuity for both internal and external stakeholders after disruptive change actions. Acknowledging the distinct roles that different actors can adopt, and using them in a coordinated fashion to further family-firm renewal, should represent part of the board's and the CEO's toolbox.

My study also provides an alternative to viewing all renewal-related decision-making as being based on rational maximisation of a perfectly defined preference function. The owners' informal rules can significantly influence family-firm owners' decision-making. However, while applying some rules may trigger or facilitate renewal, not all may do so, especially when contingencies change. This calls for non-family board members and management to be able to challenge the rules applied by the owners. A non-family-member chair can be well-positioned to mediate between the argumentation of non-family board members, the management and the owners, particularly if executing renewal calls for challenging the owners' deeply ingrained rules. Hence, the profile and skills of a family-firm chair should reflect these demands, especially when the firm is attempting a strategic renewal. Empathy and the ability to facilitate effective decision-making when decision-makers' belief structures and flows of logic may differ is crucial.

My study reveals that informal processes comprise an important aspect of family-firm governance. While I do not suggest that they replace formal governance, the practitioners may improve the transparency of the governance by making informal processes more visible for all board members and agreeing on rules seeking to ensure that informal interaction between the CEO and board members positively contributes to family-firm governance. This can help avoid such pitfalls as decision-making that belongs to the board agenda occurring outside the board meetings, or the owners undermining the authority of the non-family chair through their dyadic interaction with the CEO. Furthermore, board and leadership evaluations should reflect the observation that important interaction does not occur solely in board meetings. A chair who can support and coach the CEO and a

CEO who can support the chair through timely and accurate information between board meetings represent important assets for any firm. Similarly, board evaluations should account for the board members' ability to enact their advisory role, not only in the board meetings but also in dyadic interaction with the CEO without being overly involved in operational matters or breaking the lines of command. Required skills for successful informal interaction may differ from the skills that predict successful contribution in the board meetings. Both skill sets should be multi-directionally evaluated in (typically) annual board evaluations.

The practitioners should also acknowledge the risks related to reducing healthy cognitive conflict when the dyadic interaction between the CEO, chair and owners is intensive. This requires trust from the owners and the chair regarding the CEO's ability to generate reasoned alternatives for board discussion, as well as the owners' trust in the chair to facilitate decision-making that serves the interests of the firm and its shareholders.

At the societal level, corporate governance research must produce findings that can be put into practice to improve governance quality. The results of this study highlight the importance of the chair's role. This calls for shareholders' nomination committees (or other structures used in the board member nomination process prior to the shareholders' meeting) to pay close attention to the quality of the chair. A decision on whether the chair should be elected by the shareholders' meeting or whether the board is left to nominate the chair among its members is an important one. Based on my study's findings, I would recommend the decision to be made by the shareholders regardless of the size of the company.

As a practitioner myself, working on this research challenged some of my earlier beliefs and practices. First, having viewed the family firm board from a non-family member's perspective, the results of this research revealed the significant potential of family-firm owners to trigger the change. This is contrary to the commonly held view of non-family directors as the primary key sources of change in family firms. My study, however, shows that a strong signal may be required from the owners of their desire to change the company direction prior to its effective implementation by non-family members. Second, my finding on the risks related to reducing constructive conflict if the owners or a chair overuse their position outside the board room has made me much more aware of my own ways of working as a chair. Third, while I have always considered dyadic relations outside the board room as an influential form of interaction, my research provided me with a conceptualisation that can be used effectively when discussing the role of the dyadic interaction and its implications with the shareholders' nomination committees, other board members and with the management.

5.3 Further research

Studies on family-firm strategic renewals offer several interesting research avenues, as research on this subject remains in at early stage. This study opens up new research avenues through its focus on the behavioural side of governance and family-firm renewal

as a process. In particular, the owners' role justifies further research. While this study has focused on two cases where the owners proactively triggered the change and, throughout the process, took actions that often facilitated the change, an understanding of what happens in family firms where the owners' resistance to the change and the renewal is not voluntary but is enforced by the financiers would further build the body of knowledge on the owners' role. Additionally, studying the process of how the informal decision-making rules of family-firm owners change (or do not change) over generations could offer important new insights for understanding the change capabilities of family firms.

In addition, this study calls for an increased research focus on informal processes that have not been easily accessible for governance researchers focused on archive data. Studying informal processes could benefit from researcher involvement through methods such as action research and participant observation. At the same time, archive data extends beyond the formal board minutes and presentations, as digital communication platforms such as SMS, board portals, WhatsApp and even team communication tools like Slack are increasingly replacing or adding to dyadic discussions, whether face-to-face or over the phone. Over time, this can multiply the available data concerning informal interaction, especially in privately held firms where the digital footprint on board interaction can be viewed as less of a risk than in public companies. Hence, studying the intertwining of formal and informal governance processes through multiple datasets and in a longitudinal manner could provide new insights concerning how board decisions occur within formal and informal decision-making processes. This understanding could, in turn, further connect the theoretical understanding of the elements of board processes and the boards' value adding in practice.

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Publication I

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Strategic renewal in a mature family-owned company – a resource role of the owners

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ABSTRACT

In spite of the high failure rates of later-generation family companies, the research on family firm strategic renewals has been limited. The role of the owners in these situations, in particular, remains underexplored. We address this research gap and suggest that the owners of a family firm can take an active resource role in triggering and supporting change, and by balancing the disruption through bridging the firm's new direction with the past. We propose a framework that illustrates the relationships between the conditions for renewal, strategies for renewal and the owners' behaviour. In addition, we theorise that the owners' influence is not only carried out via active board membership, but also indirectly via the owners' discussions with the TMT and between family members.

Introduction

The role of the family business in global wealth creation is indisputable. According to the European Commission, family businesses are estimated to make up over 60% of companies and account for 40–50% of employment in Europe (European Commission DG Enterprise and Industry, 2009). Also, on a global scale, there is a consensus that family businesses contribute significantly to global wealth creation, but views on the exact magnitude vary largely depending on the source. While many family firm definitions emphasise the family business owners' focus on long-term sustainability and keeping the business in the family (Chua et al., 1999; Donnelley, 1964; Miller and Le Breton-Miller, 2005), only approximately 30% of family firms survive into the second generation, and only 15% reach maturity and survive until later generations (Beckhard and Dyer, 1983; Hiebl, 2015; Ward, 1987).

As Huff et al. (1992) observe, for any firm to survive in a dynamic environment, it has to have the capacity to improve its alignment with internal and external demands. In spite of the economic importance of family firms and their high failure rates, the number of recent studies of family firm renewals is limited. In recent years Bégin et al. (2010), Canterino et al. (2013), Cater and Schwab (2008), Miller and Le Breton-Miller (2005), Salvato et al. (2010) and Sardeshmukh and Corbett (2011) have discussed how the family firm context (that is the ownership structure of a family firm) affects the content of the strategic renewal of mature family firms. While the focus of these studies has not been the role of the owners per se, with an exception of the study by Salvato et al. (2010), all the studies recognise family firm characteristics – such as long-term focus, consensus orientation and tradition – as both obstacles and resources for renewal.

We argue that given the family firm owners' transgenerational motivation and control of the organisational agenda, the owners have the motivation and authority to influence a family firm's strategic renewal. While the recent literature on family firm strategic renewals offers insights into how the family firm characteristics influence strategic renewal, it falls short of explaining how these

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characteristics are influenced by the owners' behaviour.

As the generations in a family firm go by, a firm can be assumed to experience changes in its environment and also an increase in its inflexibility as the commitment to its chosen strategy grows. Consequently, the probability of needing a radical change grows (Huff et al., 1992). In later-generation family firms, the need for formal governance increases as the ownership gets more dispersed and professional managers increasingly replace family owners (Aaken et al., 2017). At this point, the board often becomes a key forum in which the family can exercise its control (Gersick et al., 1997). Combining this with the board's key role in assessing a firm's strategic direction, we argue it is worthwhile to focus on the owners' role as board members in a mature family firm so as to understand the owners' role in family firm strategic renewal and, ultimately, the owners' potential role in a family firm's renewal capacity.

We recognise that recent discussion on the strategic renewal and strategic decision making in general has provided new and interesting insights on the role of different organisational actors. For example, Villagrasa et al. (2018) have discussed how the CEO's satisfaction with the firm's performance affects the magnitude of intended strategic changes, and explored how the firm's relative performance compared to the industry moderates this relationship. Logemann et al. (2018) have shown how managerial sensemaking guides the organisational sensemaking in different stages of strategic change. Also, the studies focused on strategic issue management have shed light on the questions that relate to the sustainability and renewal capabilities of firms. For example, Laamanen et al. (2018) have extended the scope beyond the TMT only to a strategic issue management system as a whole to study how team-level choices in strategic issue processing and organisational congestion interact in their effects on a firm's strategic issue management performance. Focusing on the role of TMT and middle managers in dealing with strategic change and decision-making (Volberda, 2017), these studies have provided important new information on the change capabilities of the organisations. However, the role of the owners, even in settings where the ownership is not dispersed and the owners exercise direct control in the decision-making of a firm, remain under-explored. We suggest that understanding the owners' role in strategic renewal better enables utilising the owners' potential to further the sustainability of family firms. When studying the role of the owners' participation in family firm decision-making, a fine-grained, deeply contextual approach to the micro-processes of family firm decision-making can help to provide new insights. This, we argue, is lacking in the literature of family firm renewals.

Our study makes several contributions. First, we propose that the owners of a family firm can play an important resource role by influencing the interaction of cumulative stress and inertia (Huff et al., 1992, 2000), which governs the process of strategic renewal. We argue that the owners can take actions to trigger renewal but later also support the adoption of the new strategic direction by balancing the disruption and creating commitment by bridging the firm's new direction with the past. In this way, the renewal is pushed by the owners throughout time. We propose that tradition and change should not be viewed as counteracting forces in family firm renewal (Canterino et al., 2013; Cater and Schwab, 2008) and suggest that the influence of the owners' behaviour must be evaluated in its temporal context and that the owners' role change as the renewal proceeds. Second, we argue that a well-working governance structure and process can provide an institutionalised framework for the owners to exercise owners' discretion and influence in a balanced manner. While Salvato et al. (2010) attribute the owners' capability to support a radical change to a single owner who possesses referent power based on charisma and exceptional interpersonal skills, we argue that governance structures and processes that are not reliant on dominant family members (Hall et al., 2001) have the potential to be built into a sustainable change capability. Third, in a unique way, we show how the owners' influence is exercised not only inside but also outside the boardroom. While the family firm literature recognises the risks that relate to the owners' using their influence outside the boardroom (Bettinelli, 2011: Gersick et al., 1997), we suggest that the owners' influence outside the board provides the owners with an important tool to steer change in a direction that they can commit to, i.e., towards a strategy that is believed to be a better fit with external demands and opportunities (Huff et al., 1992) but is also aligned with the owners' shared vision of the company (Canterino et al., 2013). Our case points to a number of ways in which a solid board structure and process can be used so that transparent governance is not undermined because of the owners' influence outside the boardroom.

The article consists of seven sections. After the introduction, we review the theoretical framework, drawing on the research on strategic renewal in general, case studies on family firm renewals and the owners' role in family firm strategic decision-making. Next, we discuss the methodology and the case study of a 96-year-old, family-owned company attempting a strategic renewal. The fifth and sixth parts of the article discuss the key findings and propose a framework for the owners' role in family firm strategic renewal. The last part focuses on limitations, future research avenues and conclusions.

Theoretical framework

Strategic renewal

Strategic renewal is a prominent theme in the literature of organisation and management. As Agarwal and Helfat (2009) observe, strategic renewal is often discussed but not defined. Schmitt et al. (2016b) in turn argue that the different theoretical backgrounds are the key reason for the lack of consensus on what is meant by strategic renewal. They identify three key theoretical tensions in strategic renewal literature. The first dimension, antecedents, focuses on the sources of strategic renewal, as some scholars take the organisational learning perspective (e.g., Crossan et al., 1999), while others follow a resource-based view and argue that renewal is driven by the transformation of a firm's resources (e.g., Augier and Teece, 2009). The second dimension, processes, reflects the actual concretisation of the renewal, as some adopt the upper echelon view that considers senior management to have the key role (e.g., Kwee et al., 2011), whereas others argue that lower-level managers are also important in driving strategic renewal (e.g., Floyd and Lane, 2000). According to Schmitt et al. (2016b), the third dimension, outcomes, defines what firms attempt to achieve through strategic renewal as those promoting the co-creation perspective (e.g., Flier et al., 2003) argue that firms actively seek to influence

industry development in order to enhance their competitive advantage, while Huff et al. (1992, 2000) studied renewal through a model of cumulative stress and inertia. Recently, Miller et al. (2018) have contributed to the conceptual debate on the nature of strategic renewal by proposing an additional distinction to incremental and radical renewal (e.g., Huff et al., 1992). They propose that the firms can opt for strategy restoration and reinterpret and re-enact once abandoned strategies for present use so as to improve future performance. While theoretical plurality has its advantages, both Schmitt et al. (2016b) and Agarwal and Helfat (2009) call for a more integrated approach in order to facilitate cumulative knowledge building, and Schmitt et al. (2016b, p. 5) suggest this definition of strategic renewal: '*strategic renewal describes the process that allows organisations to alter their path dependence by transforming their strategic intent and capabilities*'. This definition, we observe, emphasises the time-related aspect of the organisation-level renewal process and its transformational nature by focusing on the path-breaking transformation (Schmitt et al., 2016a) and excluding incremental, homeostatic adjustments from its scope (Huff et al., 1992).

The interaction of cumulative stress and inertia in explaining strategic renewal

While a necessary balance between the stimulating and stabilising forces is a recognised paradox faced by all organisations in their efforts to survive and prosper (see, e.g., Baden-Fuller and Volberda, 1997), research on family firms recognises the importance of tradition and a long-term perspective, as well as strong mental models, as particularly strong characteristics of family firms (Jensen, 2003; Le Breton-Miller and Miller, 2006; Miller and Le Breton-Miller, 2005). Such features can be both strengths and weaknesses as they can favour either commitment and long-term focus or resistance to necessary change (see, e.g., Cater and Schwab, 2008; Miller and Le Breton-Miller, 2005; Salvato et al., 2010). Based on the assumption that the forces both for maintenance of the status quo and for change exist simultaneously in any organisation, Huff et al. (1992, 2000) conceptualise renewal through a model of cumulative stress and inertia. The approach builds on the process of innovation adaptation (see, e.g., Rogers, 1962; Lave and March 1975; Abrahamson, 1991), the concepts of satisfying behaviour and the cognitive boundaries of management (Cyert and March 1963; Simon, 1945), as well as a number of schema theories of how knowledge structures are developed and changed. Huff et al. (1992) define inertia as the level of economic and psychological commitment of the current strategy and resistance to renewal outside its boundaries. As long as the current strategy delivers satisfactory results, either as it is or by making only small adjustments to it, there is little incentive to re-evaluate the strategy and consider radical, second-order change (which is *strategic renewal* by the definition of Schmitt et al., 2016b) and hence the organisation maintains the status quo and remains at *state I* Huff et al. (1992) argue. Over time, the actors' commitment to the current strategy (i.e., inertia) grows as resource commitments accumulate, institutional routines strengthen and the organisational actors benefit more from maintaining the status quo than from exploring alternatives. However, as the environment changes, the execution of the strategy fails and/or new recruits and other groups propose new ideas, the organisational stress (i.e., the concern and dissatisfaction of the organisational actors that they experience as there is a misfit between the organisation and its environment) grows, Huff et al. (1992, 2000) argue. As a result of it, the organisation may be triggered to move to *state II* and face a decision about whether or not to consider a significant change in strategy. If it decides to do so, in *state III,* the organisation develops renewal alternatives and assesses them. If the benefits of a new strategic direction are seen to outweigh its risks and it is adopted, the organisation goes through a period of '*honeymoon and trial*' (Huff et al., 1992, p. 63) in *state IV*. In this state, the early enthusiasm and grace period make way for the assessment of the first observable results of a new strategy. If the results are satisfactory and can be sustained, the commitment to the new strategy and inertia grow, and the organisation achieves a new status quo.

Strategic renewal in a family company context

As Harms (2014) observes, the family firm definition remains elusive as multiple definitions exist and some scholars are not explicit about the definition they have used. In our research, we have adopted the definition by Chua et al. (1999, p. 25): '*a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations or families*.'

In spite of the economic importance, yet low survival rate, of later-generation family firms (Beckhard and Dyer, 1983; Hiebl, 2015; Ward, 1987), the empirical research on mature family firms and deliberate managerial or owners' actions to tackle the need for change and renewal has been limited. Miller and Le Breton-Miller (2005) studied a number of both successful and failing family companies and identified a number of characteristics that can either support or hinder the success of family companies. For example, they suggest that the emphasis of continuity in family firms can enable long-term investments and the development of deep core capabilities but can also lead to stagnation. Brunninge et al. (2007) have shown that closely held family SMEs exhibit less strategic change than other SMEs but that the outside directors or increasing the size of TMT can help to overcome the inertia. Sardeshmukh and Corbett (2011) have discussed the strategic renewal of family firms in the context of the family business successor's work experience, self-efficacy and innovation. Salvato et al. (2010) have studied Italian family entrepreneurs' exit from the founder's business and the subsequent entrepreneurial renewal in a generational family business. Based on their case study, Salvato et al. (2010) argue for the importance of a family champion and his or her critical role in preserving the institutional integrity throughout the business regeneration process. They propose a model describing how the inhibitors of exit from the founder's business can be transformed in order to facilitate change. Bégin et al. (2010), in turn, have provided a case-based study on the strategic renewal of a French family SME since its foundation in 1826 and found evidence that the family dimension of wanting to pass the firm on to the next generation could explain the spirit of the strategic renewal process. Canterino et al. (2013) propose a framework for managing transformation in a family business through 'transformational leadership'. The framework builds on Beckhard and Pritchard's (1992) three-stage model of change, Poza's (2008) organisational development model and the Greiner et al. (2003) transformational model.

In their case, in an Italian family company, an outside CEO played a key role in overcoming the strong cultural inertia of the company and the family. In a case study of two US-based family companies, Cater and Schwab (2008) differentiate between strategies that focus on organisational stabilisation and strategies that focus on implementing organisational change. In their stage-based causal model, Cater and Schwab (2008) conceptualise the influence of the family firm characteristics – such as long-term orientation, altruistic motives, informal management systems and consensus seeking – on the implementation of the chosen strategies.

While family ownership is the key context in all of the above studies, none of them, with the exception of Salvato et al. (2010), focuses on the role of the owners per se. However, the owners' behaviour emerges as a key contextual factor as it inhibits, enables or has an ambivalent influence on change. The owners emerge as being alternatively a key source of inertia (Canterino et al., 2013), the most important change champions (Salvato et al., 2010) or the drivers of a firm's entrepreneurial spirit (Bégin et al., 2010). However, while the research shows that the owners' behaviour can have a significant influence on family firm renewal, it does not investigate the micro-processes behind the owners' behaviour. We suggest that studying a macro-level phenomenon of strategic renewal in terms of actions and interactions of organisational actors (De Massis and Foss, 2018), and how the family firm owners enact often seemingly contradictory roles, can help us to understand the owners' potential to influence the sustainability of family firms in greater depth.

The owners' influence on a business and their participation in strategic decision-making through a board of directors

Family firm owners' influence on the company's future can be reflected by using two dimensions: the family's ownership and characteristics of the family's governance control over the company (Silva and Majluf, 2008; Pieper et al., 2008). The governance control can be carried out as a direct family presence in the business in terms of board seats and top management team ("TMT") positions (e.g., Silva and Majluf, 2008; Pieper et al., 2008), or it can be indirect, coming through board members or managers chosen and nominated by the family (Corbetta and Salvato, 2004; originally in F-PEC).

The board of directors is the central governance body for a business. Often, the discussion around a family business's board of directors is summed up by two board roles: the control and advisory roles (Bammens et al., 2011). The control role emphasises monitoring as the board's key task (e.g., Zahra and Pearce, 1989) and is based on the agency theory, while the advisory role has its roots in stewardship theory and the resource-based view that highlights the board as a value-adding resource for TMT decision-making (see, e.g., Gabrielsson and Huse, 2005). In the resource-based view, board advice supports the firm by extending the existing knowledge base of the company with the knowledge held by the board members (Bammens et al., 2011; Gabrielsson and Huse, 2005; Huse, 2005). Bammens et al. (2011) distinguish two broad categories of knowledge: firm-specific knowledge (including understanding of the firms' internal processes) and general business knowledge (Forbes and Milliken, 1999; Sirmon and Hitt, 2003). As the board of directors can have a crucial role in strategic decision-making and renewal processes (e.g., Gopinath et al., 1994; Hass and Pryor, 2005), it seems that the direct participation in the board of directors offers the owner(s) a fine opportunity to participate in the strategic renewal process in its different stages. In addition, the owning board members can offer a valuable knowledge addition to the process, based specifically on the firm-specific knowledge they probably have, while the board members who are not family members and do not belong to the business or ownership group – 'outside directors' (Bettinelli, 2011) – can bring important general business knowledge, as well as external insight and contacts.

Methodology

The use of qualitative methods has expanded over the past decades (Garcia and Gluesing, 2013; Miles and Huberman, 1994). In the field of organisational studies, the interest in dynamic organisational phenomena has led scholars to either test the theories on the basis of high-level longitudinal time series and event-history methods or to focus on developing the theories bottom-up based on highly detailed qualitative data (Langley, 1999). In family business research, the latter method, based on a case study that provides contextualisation for important processual phenomena, has become a prominent methodological approach (Leppäaho et al., 2016).

Research design

After having defined our initial research interest, we opted for a case study approach that would provide longitudinal data from a number of sources and enable the opening up of the 'black box' of decision-making and exploring the processes and roles that the board of directors in a mature family company assume. As renewal strategies are typically adopted by mature firms, we made the decision to focus on a mature family business at the cousin consortium stage when the role of the board becomes prominent (Gersick et al., 1997).

As Eisenhardt stated (1989), it is not necessary to randomise the selection of the case studies as the purposive method can ensure the selection of a case (or cases) that enable learning. We assessed our research interest to be served best by a detailed description of deeply contextualised data. The key driver for the selection of the case company was the set criteria of the ownership structure, the phase of business development and the ongoing attempt at strategic renewal. As earlier studies that have focused on boards of directors (Leblanc and Schwartz, 2007; Zahra and Pearce, 1989) have reported about the challenges in gaining access to the boards of directors, access to the company's senior decision makers and to the company archives was also an important selection criterion. We contacted the gatekeepers through the contacts of one of the writers of this article, an informal access strategy recognised by Leblanc and Schwartz (2007).

Table 1
The interviews.

Date	Interview
2.6.2017	An owner, vice Chair of the Board
29.6.2017	An owner, vice Chair of the Board
18.7.2017	An outside director
24.8.2017	An owner, member of the board
25.8.2017	A TMT member, CFO, Secretary of the Board
31.8.2017	An outside director
4.9.2017	An outside director, Chair of the Board
18.9.2017	A TMT member, responsible for a business unit
20.9.2017	An ex-CEO
25.9.2017	A TMT member, responsible for a business unit
16.10.2017	The serving CEO
13.10.2017	An outside director

Data collection

The first meeting with one of the owners served as a setting for the interviews that followed, our primary data. In the meeting, we agreed on the time frame we would focus on and also on the initial list of the interviewees. We were also provided with full access to the corporate archives, including the agendas, the minutes and the presentation materials of the board meetings. We then conducted 12 semi-structured interviews over the course of five months. Most interviews were organised on the company premises and were scheduled to last between 60 and 90 min each. With some of the interviewees, we focused on a pre-agreed, narrowly defined topic, and sometimes the interview, intended to be semi-structured, took a turn towards an in-depth approach as we focused on matters that the interviewee brought up and we considered that it merited more focus.

All interviews were recorded and transcribed. Table 1 shows the list of interviewees. As a result of the interviews, we had a rich array of narratives that described the events and the owners' and outside directors' roles, both from their own and other organisational actors' perspectives, between 2015 and 2017 (see Table 2).

We supported the semi-structured interviews with secondary data, including board agendas, board minutes and board presentation materials, as well as public materials, such as technology white papers and customer marketing materials. The board materials provided important background information with regard to the timing and content of the actions. We processed this material by preparing detailed notes on the topics discussed and on the key decisions in each board meeting that took place within the time frame that we had decided to focus on. Secondary data helped us understand the company, its history and the markets and hence helped us understand the circumstances behind the events.

Data analysis

In qualitative research, analysis can be an iterative process that happens simultaneously and in interaction with data collection. We approached the analysis of the process data in multiple ways. While still conducting the interviews, we went back to our informants to clarify the information we had received. We added interviewees to our initial list of the informants agreed in the first meeting with one of the owners. We also started to apply a narrative strategy in order to write a detailed description of the raw data. This stage resulted in a 35,000-word story that served as a first data organisation device (Langley, 1999) and formed our preliminary content analysis. We then proceeded to the next stage of our data analysis and opted for using the Gioia method (e.g., Gioia et al., 2013; Nag and Gioia, 2012), which is designed to provide qualitative rigour in inductive research.

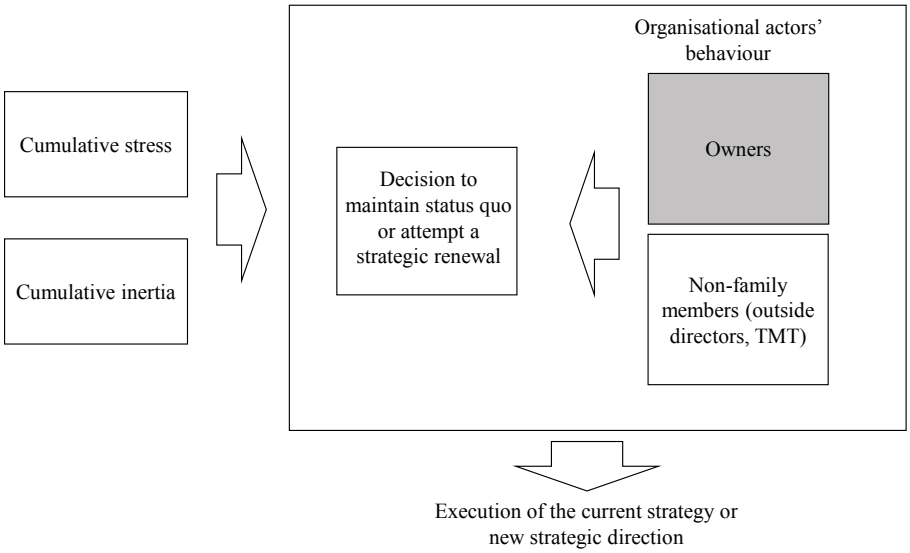
Processual case data is often complex in terms of space, time and levels of analysis. To address this complexity, we opted both for manual and software-assisted analysis. We first searched for the themes and keywords from the interviews by using N-Vivo software, we created the codes and wrote a description for each code. In this first-order analysis, our 43 identified categories were data driven and named after short quotes from the interviews that we felt best represented the category. To arrive at the second-level themes, we combined the informant terms with theoretical themes emerging from the extant literature of strategic renewal. These themes included both a temporal aspect (renewal as a process as, for example, recognising the background for the renewal and the sequence of the managerial actions) as well as the content aspect (the content of managerial actions) as discussed by the extant literature. At this stage, we spent an extensive amount of time identifying the concepts that offered novelty compared to the earlier literature. Analysing the actions taken to renew the company, it was the owners' role and behaviour that caught our attention as this aspect has been under-explored in the existing literature. See Appendix for Figure 1: The data structure.

Theory articulation

As Langley (1999) notes, the analysis of process data calls for conceptualising events and observing patterns among them. As we made the decision to focus on the owners' role, we then moved on to studying whether this phenomenon would stand up to closer scrutiny, in other words, whether we had sufficiently convincing evidence, and if we could move from the dimensions of the data structure to reveal the relational concept between these dimensions and hence develop an inductive theory framework (Gioia et al.,

Table 2
The timeline for the key events.

2014	2015	Winter 2016	Summer 2016	Autumn 2016	Winter 2017
Owners' growing concern about the status quo	The new Chair of the Board begins work A new outside director joins	An outside director resigns The new Head of R&D is appointed HQ is relocated	A new outside director joins	The new CEO is appointed Evaluation of alternative strategies is started	The proposal of a new strategy The headcount is reduced The roles of the R&D sites are redefined The new Head of Marketing is appointed 'Fail fast forward'



The framework for strategic renewal through the interaction of stress and inertia adapted from Huff *et al*. (1992)

Fig. 1. The key concepts.

2013). This iterative stage was characterised by going back and forth between theory-building and the data. As we worked in an iterative manner, it was at a certain point of time that any additional data we requested and received, we already had, or its scope went beyond our research focus. Once the new themes also ceased to come up, we deemed the data and the analysis to have been sufficient to reveal the relationships between the key concepts and for purposes of theory generation. While our approach was inductive, we reviewed our concepts through a number of theoretical lenses so as to position our emerging framework within a wider scope of the extant literature on strategic renewal. We opted for the model of Huff et al. (1992) as a relevant theoretical positioning for a number of reasons. First, our data provided strong evidence of the interaction of stress and inertia as a key factor influencing the renewal during the period we studied. Second, earlier research had suggested that inertia induced by the owners played a key role in family firm renewals. Third, as is typical for processual case data, our data was complex in terms or space, time and levels of analysis (Pettigrew, 1992) and the model of Huff et al. (1992) operates at the individual, sub-group and organisational levels.

Our diversified backgrounds as scholars and practitioners, with experience in different types of family firms and company situations, helped us to consider alternative interpretations. Also, while our approach was strongly data-driven, we did not shy away from exposing our initial findings at an early stage to other scholars and experts. We also shared our findings with the case company and incorporated the feedback that we received. Fig. 1 illustrates the key concepts, while a detailed model on the owners' role in family firm strategic renewal is presented in Section 6.2.

Case description

The history of the case company

The case company was founded in 1921 by a group of Finnish and Polish businessmen, backed by the Polish ambassador to Finland and a Finnish entrepreneur of German origin. Since its birth, the company has gone through a number of transformations, from a trading company to a manufacturer of radios and then TVs, and since the 1970s, it has focused on the lighting market. In 1990, the company acquired full control of a UK-based world leader in lighting control and systems. A clash of the company cultures caused difficulties, and in 1993, one of the owning family members became a Managing Director of the company with the task of solving the situation. Within five years, the business was restructured and stabilised and a non-family member was appointed as Managing Director.

Today, the key product lines of the company include lighting controls and luminaire components that can be used as single components or combined into lighting systems to achieve integrated solutions. In 2016, the company had a turnover of EUR 76m. Over 97% of the sales are generated outside Finland, in other parts of Europe and in Asia.

The company has been owned by the same family since 1921, when the great grandfather of two current board members founded the company. Today, the company is controlled by six cousins, representing the fourth generation. During the period studied, 2014–2017, two of the owning family members ('the owners') were members of the board of directors, one of them serving as a Vice

Chair of the Board, while the Chair of the Board and three other directors were non-family members and not associated with the business ('the outside directors'). The board composition has changed during the time period as a new Chair was appointed in 2015, and two new outside directors were appointed in 2015 and 2016 (after one outside director resigned for personal reasons). The family representatives on the board have now remained the same for 16 years. One of the owners, the current Vice Chair of the Board, served as the CEO of the company between 1996 and 2000 and as the Managing Director of the UK acquisition between 1993 and 1998. During the period studied, none of the family members worked in operational roles in the company. Following the typology proposed by Gersick et al. (1997), the firm can be classified as a mature business in the cousin consortium stage, and it fits the definition of a family business given by Chua et al. (1999).

The firm operates within the Finnish corporate governance model, which has a clear division of tasks for the shareholders, the board of directors and the CEO. The executive directors rarely serve on the board of directors. Also, decisions about the board members, as well as about their remuneration, are made during the annual general meeting, not by the board of directors.

From the status quo to implementing the new strategic direction: 2014–2017

Around 2014, the owners started to have a nagging feeling that the company was on a dependency path that would not necessarily guarantee future success. While the company had retained a strong balance sheet, it had been experiencing a several-year-long sequential decline in sales. The transition, first from magnetic to electrical ballasts and then the introduction of products based on light-emitting diodes (LEDs) had fundamentally changed the clock speed of the lighting component industry. In the lighting control business, the disruption was taking the form of industry convergence. A combination of the digitisation of data and technology enablers – such as wired or wireless connectivity, the Internet of Things (IoT), machine learning and artificial intelligence – was increasingly being used to exploit LED technology to enable new business or transform existing businesses. In the component product line of the company, the luminaires for fluorescent lighting were experiencing a rapid decline, while LED-based products were growing in importance. However, the growth and profitability of these products did not compare well with the performance that the lighting control business was experiencing. The lighting control product line had been merged with the Finnish operations but was still largely based in the UK and considered a non-core business by Finnish management. Also, while the owners believed there could be synergies between the two product lines, it had been difficult to define and measure these benefits.

The company CEO and the Chair of the Board, both of whom came from outside the family and were approaching retirement age, had been working together for 11 years. Many of the employees had been with the company for a long time and appreciated its culture of caring and good benefits. There were signals of growing complacency: the decision-making that required making tough choices was easily put on hold and recruiting new talent was slow. Rather than waiting for an inevitable change in the management due in a few years' time, the owners tasked an executive search company to look for a new Chair of the Board. In 2014, an accomplished technology executive was introduced to the owners and was soon appointed as a board member, and in 2015 he was appointed Chair of the Board. With the help of the new Chair of the Board, the owners' worries about the long-term sustainability of the company were framed into the context of the technological disruption that the industry was going through.

In the winter of 2016, the company relocated its headquarters from a small country town to the capital region, and the board and the management initiated work on a new strategy. A several-months-long effort ensued, and the strategy went through several iterations. By the end of the summer, the strategy process had increased the board's understanding of what was happening in the industry, but there was still a feeling that adequate clarity regarding the company's future had not yet been reached. However, the strategy process had made it obvious that the company's new direction – as undefined as it yet was – required new skills. The soon-to-retire CEO had been a loyal company man throughout his duration as a CEO, but his skillset was focused on the components business and manufacturing. While the process for finding a new CEO was supported by a professional headhunter, the new Chair of the Board introduced the winning candidate through his extensive network.

In the board meeting of December 2016, the new CEO boldly suggested that the synergies between the component and lighting control product lines were limited and proposed that the lines should be run as different units with specific goals: the component business would be run as a source of cash flow and the lighting control business as a strategic business that would provide future growth. This would mean a heavy reallocation of the resources between the two product lines and also fundamental changes in both businesses' key strategies.

The proposed strategy was approved, and in the February 2017 meeting, the board discussed plans for executing the agreed change. In order to reduce the cost base, the wide customer base of the component business had to be reduced, and it was estimated that a large share of the workforce had to go. Furthermore, there was a need to make a decision about the site strategy of the company and clarify the roles between the operations in Finland and those in the UK. In addition to the measures directly related to the two business units, the new CEO advocated for a culture that allowed more risk taking and promoted the 'fail fast forward' approach, as well as advocating for a more open attitude towards working together with customers, experts and even competitors. The company was well on its way to executing its renewal plan.

Findings and discussion

Next we review the states that the company went through between 2014 and 2017 within the framework of Huff et al. (1992) and discuss the role of the owners in implementing the changes.

State I: incremental adaptation within the framework of the current strategy

Our case company had, for many years, experienced a sequential decline in its sales, but its balance sheet remained strong. The previously relatively stable environment had become highly turbulent, while at the same time many felt that the company suffered from complacency. It was in this environment that the owners started to have concerns about the sustainability of the company:

> *Two years ago, we felt uncertain vibes. We were not convinced that the future of the company would be bright. […] I feel that even though it cannot be described well, the owner has the ability to see these kinds of long-term changes that may create a risk for the company's survival. Somehow, they are noted first by the owners and the board members, before the executive directors of the company*. (Owner, Vice Chair of the Board)

> *It is good that people* [the employees] *feel safe, but you cannot continue forever just thinking that a small profit is ok, even though the company is not growing […] The inertia becomes a risk, what is felt as secure becomes a risk […] it becomes a threat to the survival of the company*. (Owner, a member of the Board of Directors)

Three explanations emerge from the data for the owners' being the first to question the sustainability of the firm's strategy while the rest of the organisation found the incremental adjustment to be adequate. First, the owners' tenure with the company has been life-long. While the outside CEO and the outside Chair of the Board had been in the company for 11 years, and outside board members for a maximum of a few years, the owners could count their tenure as having started since they were in their early twenties and appointed first as non-voting members of the family company's board of directors before becoming full members. Also, one of the owners had served as the MD of the company in the past for four years. Thanks to their long-term tenure with the company, the owners had intimate knowledge of the business (Le Breton-Miller and Miller, 2006; Sirmon and Hitt, 2003; Dyer, 2006; Kets de Vries, 1993). This, they felt, helped them to sense early warning signals, in particularly as their board position gave them some distance from the daily operational matters. Second, the owners felt that the outside board members would not initiate a radical change and disrupt the board cohesion unless the misfit of the current strategy was severe and it was up to the owners to propose it.

> *The more I see family companies, the more convinced I am that outside board members do not easily propose very radical changes, because, well, they feel that if they do so, the owners think they are crazy and kick them out … I do not know … decisions about major ramp downs and such like often need to be made by the owners, and if they do not do it, then the company continues in its old, poor way*. (Owner, Vice Chair of the Board)

Third, only the owners themselves had the privilege of accurate knowledge of their own expectations while other organisational players hold a widely shared belief that the owners' were satisfied with the results. Consequently, the rest of the board and the TMT continued to benchmark the performance of the current strategy against targets that the owners no longer considered valid. Combining these explanations with the fact that the owners have control over the organisational agenda (see, e.g., Carney, 2005; Chrisman and Patel, 2012; Hiebl, 2015; Le Breton-Miller and Miller, 2006; Miller and Le Breton-Miller, 2005), and hence are empowered to act, we propose that our case provides evidence that questioning the adequacy of the current strategy can require the owners' discretion, as the outside directors and TMT may lack the knowledge, motivation and authority to propose radical change, particularly if there is no acute crisis.

State II: deciding whether or not to consider a significant change in strategy

In order to enforce a decision to review the alternatives and to enable the envisioning of renewal alternatives, the owners broke the stalemate created by the long-term joint tenure of the two non-family members: the Chair of the Board and the CEO. The owners felt that the first step for the renewal had to be the change of the Chair of the Board. The new Chair of the Board had extensive first-hand experience of leading a business that had witnessed a value migration from the hardware layer to the software layer.

In the beginning, the new Chair of the Board played a key role in recognising and revealing the asymmetry between the owners' expectations and management actions, which the interviewees attributed to the lack of communication, the long tenures of the management, personal preferences and deeply rooted beliefs in the company about 'what the owners really want'C

> *This is a corporate culture matter as* [belief about what the owners want] *becomes cemented based on what people may have heard some 10 or 15 years ago. We* [family members] *may try to communicate something totally different, but can't get our message through.* (Owner)

> *One quite interesting first observation I made was that the expectations of the owners regarding what the management should do and the management's understanding of what the owners thought were very different. The management was fully convinced that the owners' first priority was the dividends and only after that, the growth of the company, while the owners were definitely of the view that there should be much more growth and that dividends are not that important.* (The Chair of the Board)

In addition to appointing a new Chair of the Board, the owners also took action to strengthen the board through two new outside director appointments with strong credentials in the technology business. Both were selected in cooperation with the new Chair of the Board and brought an injection of new, outside expertise and did not have a stake in the firm's current strategy. As a result of these appointments by the annual general meeting, the board was composed of the two owners and four outside board members (including the Chair of the Board).

At state II, the owners' role in changing the key decision makers was distinct. Literature on strategic renewal has long recognised a change to company leadership as a key tool for company-wide change (e.g., Cater and Schwab, 2008; Daily and Dalton, 1995; Canterino et al., 2013; Grinyer et al., 1988; Greiner et al., 2003; Hofer, 1980; Huff et al., 1992; Schoenberg et al., 2013; Stopford and Baden-Fuller, 1990; Schweizer and Nienhaus, 2017). The decisions on the changes in the board of directors, viewed by the owners as necessary in triggering the process of evaluating alternative strategies, called for the owners' discretion and took place outside the company's boardroom. It was after these steps that the owners' action moved increasingly from 'behind the curtains' to influencing the outside directors and TMT members in a more complex and nuanced way. While the owners recognised the driving role of the Chair of the Board in the search for the new CEO, and the boards' collective role in appointing the best candidate, the case provides evidence that the owners retained an influence on the candidate selection throughout the process. The owners' influence in the appointment of the new CEO was enacted both inside and outside the boardroom. Within the boardroom, and in his role as a board member, one of the owners exerted influence through an informal appointment committee, while outside the boardroom, the interaction between the Chair of the Board and the owners was active. The owners also influenced the process through choosing a headhunter with whom the owners had a long-term relationship and by having the family office support in practicalities, for example, supporting the legal documentation of the appointment. As a result of the search process, a candidate from outside the firm who represented the skills and the experience believed to be critical in succeeding in the changing environment, was appointed CEO.

We suggest that at this stage, the owners' actions to change the leadership both in the board and TMT induced stress among the outside directors, as well as among top management, so as to initiate a renewal process. As Huff et al. (1992) defines it, a *trigger event* is the temporally closest event to the time when incremental changes to strategy start to seem inadequate, while Canterino et al. (2013) view it as an event that enhances critical reflection of the status quo and creates awareness of the possibility of change. We recognise the appointment of the new Chair of the Board as a trigger event for the renewal process in our case company.

State III: envisioning renewal alternatives

The new CEO knew that he was hired to execute a radical change and was asked to evaluate the alternatives going forward. After a careful analysis, the new CEO was ready to challenge the long-held view of the owners that there were synergies between the component and the control product lines. He decided to propose that both product lines would have a role in the business portfolio, but as separate units, not as synergetic entities. The proposal was to manage the lighting control business as a key strategic asset providing future growth and the component business as an important source of cash flow. The lighting control business would need a strategy that would tap into new opportunities that were rapidly emerging. The cost base of the lighting component business would need to be reduced and its business focus sharpened so as to improve its profitability. The R&D site set-up, as well as the sales and channel strategy, would need to be rethought. Overall, the proposed new direction would mean a radical change in both businesses given its fundamental impact on their goals, resource level and resource allocation.

The owners' role in developing the new strategy at the state III was manifold and not easy to interpret. First, the data provides evidence that the new CEO was already informed at the interview stage of the owner's preferences, as one of the owners recalls that he talked about his firm belief about the positive future prospects of a lighting control business when interviewing the new CEO.

In spite of the early guidance, the new CEO, known for being headstrong and independent minded, addressed the challenge by a thorough analysis of his own. As is customary, he was in continuous close contact with the Chair of the Board between the board meetings, but was advised by him to also run his ideas through an owner, the Vice Chair of the Board. So as not to differentiate between the board members based on their status as an owners' representative or as an outside director, the new CEO opted for discussing with all the directors one-on-one before he took his key proposals to the board meetings. Hence, in this state, we interpret the owners' role as influencing the CEO and the Chair of the Board through offline discussions outside the boardroom. However, we argue that drawing a line between the owners' influence of the TMT's proposals and using outright owners' discretion to steer the proposals towards the outcome preferred by them is not easy. We recognise two related reasons for this. First, while the owners themselves may consider this off-line dialogue as a sounding-board type of discussion, we argue that the owners' recommendations and views are interpreted differently by the TMT members (including the CEO) than by the outside directors; '*they are the owners after all*' was repeated by many of the outside actors in the interviews. If the outside directors' or TMT members' views are in a strong misalignment with those of the owners, the owners may ultimately resolve the situation by changing the management or the board members, and hence outside organisational actors may have a bias towards adopting the owners' views. While this is true for any limited company, we argue that these dynamics can be particularly prominent in family firms where the entanglement of ownership, control and organisational roles is prevalent (Tagiuri and Davis, 1996) and the ownership is more personified than in many other ownership forms. Second, the family members' long-term tenure with the company, and hence their in-depth knowledge of the business, can also be reflected in their ability to influence the non-family members who are new to the company.

We suggest that by being closely involved with the articulation of the alternative ways forward, the owners sustained the organisational stress and ensured that they could support and commit to the proposal of the new CEO. Hence they mitigated the risk that the evaluation of the alternatives would lead to a rejection of a radical change and a return to the status quo.

State IV: honeymoon and trial – adopting the new strategy

As the board was making the decision about the new strategic direction and the new strategy was being adopted, the owners displayed a number of distinctive behaviours. Associated with the renewal plan, the board was faced with a decision to drastically cut

the headcount in the component business in order to reduce its cost base. While the family took pride in its practices towards their employees, it felt that the long-term survival of the company necessitated the reduction in headcount. To support the CEO and to ensure that the process of the lay-offs was executed in line with the family's values, the owners voiced their acceptance of the proposed lay-offs early in the board meeting where the decision was to be made. By doing this, the owners intentionally deviated from their typical restraint of expressing their views early in the board discussion so as not to inhibit the outside directors' from voicing their opinions freely.

> *The representatives of the owners said that they understand that* [the strategy proposed by the CEO] *would lead to lay-offs and we need to ensure that these are done in a respectful manner … and that we especially must ensure that the long-term employees are not treated badly. […]And we said, as you say in these situations, 'It hurts but that is ok.' […] for the outside board members this* [the owners' approval and the guidance] *was – compared to other companies – a relief as they did not have to take on this responsibility. Instead, they understood that we were prepared to do this and that we can agree that this needs to be done in order for the company to do well.* (Owner, Vice Chair of the Board)

The owners also made sure to position the decision on the new strategy in terms of its magnitude and place in the company history in a board meeting wherein the decision about the portfolio strategy was made:

> *[…] we stopped at that moment and said 'Hey, now we are making a decision about a really far-reaching and big change; a change of the magnitude that has not been made for a long time.* [A change] *that will define* [the path of the company] *for a long time.' So yes, we stopped there and said this. Maybe we also referred to the fact that this decision reflected the development that had already started twenty years ago*. (Owner, Vice Chair of the Board)

Second, while the owners had so far used their discretion and influence to trigger and stimulate the renewal, they now assumed an important stabilising role by legitimising the new direction by linking it to a shared family vision and positioning it in the context of a family company history. The data reveals how the owners enacted this role in the boardroom through narratives that linked the past investment decisions to the new strategy, but after the decision on the new strategy also outside the boardroom with the TMT and other employees, as well as the external stakeholders, such as media and local authorities. One of the owners linked it to the family discussions of the 1980s while another owner recalled how a previous family patriarch had initiated a lighting control-related acquisition in the UK in 1990.

> *When I was a young man, I had a discussion with my uncle about what would be the right business domain for us to focus on … and we agreed that it's the lighting control business […] So my uncle acquired the UK business, and then I made sure that it did not go under during the crisis years […] but I can say that, as a family, we have been of the view that this* [lighting control] *is the direction in which we want to go …* (Owner, Vice Chair of the Board)

We propose that this legitimation role, which creates commitment to a new strategy by linking it to history, reflects a family company's time horizon, which not only considers the present and the future, but also considers the past (Johannisson and Huse, 2000) and is exclusively available to family company owners as a tool to support change. Canterino et al. (2013) suggest that effective family company renewal not only solves performance issues but also contributes to the family members' shared vision for the company. We propose that enacting the legitimation role is not only important for the owners, including those who are not actively involved in the governance of the company, but also for non-family managers and employees who are committed to family company culture and traditions.

The owners also supported the renewal by balancing disruptive managerial actions with symbolic acts that conveyed continuity for the organisation and the external stakeholders in the midst of a disruptive change. Such acts mentioned by the interviewees included the owners' role in taking care of both financial and ceremonial arrangements for a prematurely retiring CEO, participating in events that were considered important for the community relationships, and promoting the company and its long history in the media. The case also provides evidence that the owners' visibility at the sites that were going through the changes was appreciated, both by the outside directors and the TMT members. They emphasised that the owners knew all the long-term employees, were viewed as approachable when visiting the sites and that their words carried more weight than those of the new outside directors and TMT members. We argue that family company owners who are not in operational roles are well positioned to balance disruptive managerial actions through symbolic acts that convey continuity for the organisation and the external stakeholders.

> *I told the CEO that he should ask for* [one of the owners] *to visit the* [country village] *site … the new CEO, who did not yet have credibility* [in the eyes of the employees], *must of course go there as well, but this is a good example of where the family can help …* [one of the owners] *knows everybody there, and it means the world if he goes there, gives an inspirational talk … this is where you can benefit from the family ownership.* (An outside director)

> *Companies have events that have high symbolic value … the opening of a new office, an important press event, an anniversary, the retirement of a long-term employee. There can be events like this when a CEO who has only been in his or her position for a short period of time or an outside Chair of the Board, despite his or her credentials, just cannot represent the company in a symbolic way […] When there is a need for somebody who can represent the company in this kind of symbolic manner, then the owners have a role.* (Owner, Vice Chair of the Board)

We recognise these distinctive behaviours of the owners as creating commitment to the new strategic direction, both when it was being proposed by the CEO and once it was being adopted by the organisation. Huff et al. (1992) recognise this as necessary in the

Table 3
The owners' actions.

Type of strategy	Owners' action	Impact/locus	Content
Changing the Chair of the Board	To make decisions	To stimulate change/outside the boardroom	The owners make decisions
The appointment of the outside directors	To make decisions	To stimulate change/outside the boardroom	The owners make decisions, but select the candidates in co-operation with the Chair of the Board
Changing the CEO	To have an influence	To stimulate change/outside/ inside the boardroom	The owners influence the selection of the advisor by involving the family office and through a close dialogue with the Chair and through the board nomination committee
Adjusting the cost base	To have an influence	To stimulate change/inside the boardroom	The owners express their approval for the measures early in the board discussion and introduce the family principles for how to treat long-term employees that need to be laid off
Refocusing the business	To have an influence	To stimulate change/outside/ inside the boardroom	The owners influence the CEO and the Chair prior to the proposals being brought to the board meetings and in the board discussions
Symbolic actions	To have an influence	To create commitment/outside/ inside the boardroom	The owners carry out symbolic actions for the TMT, employees and external stakeholders
To bridge the past and the future	To have an influence	To create commitment/outside/ inside the boardroom	On the board and in the front of TMT and employees, the owners bridge the new strategy with the past heritage

fourth state of renewal, '*honeymoon and trial*', in order to create early commitment to changes and to ease the adoption of a new strategic direction even before there are visible results of its success.

In section 5 we have shown that the owners' behaviour induce both stress, in order to stimulate the change, and stability, in order to create commitment to the new strategic direction as it is being adopted. Table 3 summarises the renewal strategies taken, the owners' role in them as well as the impact of the owners' action.

The case also reveals the potential pitfalls of over-, under- or misuse of the owners' stimulating or commitment-creating behaviour. First, our case provides evidence that the lack of understanding of the owners' real expectations was considered as a key hindrance to the renewal, and the renewal process could not start prior to the owners' aspirations becoming known with the help of the new Chair of the Board.

Second, the owners were vocal about the importance of using the owners' influence in an aligned way and were aware of the consequences if the family members who represent the owners in the board are not in agreement with each other on the matters that dealt with the key strategic directions or the values of the company and the family:

> *When we express our view on matters that are felt to require a stance from the owners, then there must be agreement on this stance. Either so that we say* [in the board meeting] *what we think, knowing that we are in agreement, or so that we say that we need to discuss the matter further. And then in the next board meeting we report back what has been agreed to be our view. It is very important that we do not disagree on the matters that call for a stance from the owners in the board meetings. Otherwise, the position of the Chair of the Board becomes tenuous and the lack of clarity means that board members cannot use the input from the owner members of the board as guidance. Instead they can only second-guess what decision may be in the best interest of the collective of owners. Disagreement between the owners also makes the TMT insecure.* (Owner, Vice Chair of the Board)

The owners' strong commitment to not bringing any family discordance to the boardroom was successful and recognised by many of the outside directors as a key feature of their good family firm governance.

Third, in the interviews the owners elaborately discussed the importance of letting the outside Chair of the Board and the CEO do their jobs, and in particular, not steering the CEO by bypassing the Chair of the Board or bypassing the CEO or the board by providing a channel for other TMT members to circumvent the CEO:

> *The Chair of the Board has an important role in ensuring that the board decisions are very clear, so that a TMT member cannot leave the boardroom thinking that she or he can ask an owner to meet for lunch the next day* [and agree that something else is done]. (Owner)

Our data reveals that while the owners did influence both the Chair of the Board and the CEO outside of the boardroom, these and the other outside directors recognised this as a positive matter as it clarified the owners' intentions. We interpret this in two ways. First, as the company had experienced a period when the owners' expectations and the outside organisational actors' understanding of them had not been aligned, the outside directors and TMT emphasised the importance of this fact. Second, the data provides evidence that the owners' influence provided information that was used by the outside directors and the new CEO to focus their search when the environmental uncertainty was high, and the firm that was initiating voluntary renewal had many alternative paths available. While this can provide security and increase focus when there is general uncertainty in the air, the literature on family firms recognises that this can lead to a 'rubber stamp' board and to the key decisions being made outside the board, among 'insiders' (Gersick et al., 1997). We also suggest that it can lead to restricting the options considered by the TMT and the board. However, we recognised a number of factors that may have reduced this risk in our case. First, the board minutes indicate that the key strategic decisions were discussed and debated in the board meetings. Second, the Chair of the Board was recognised as having encouraged

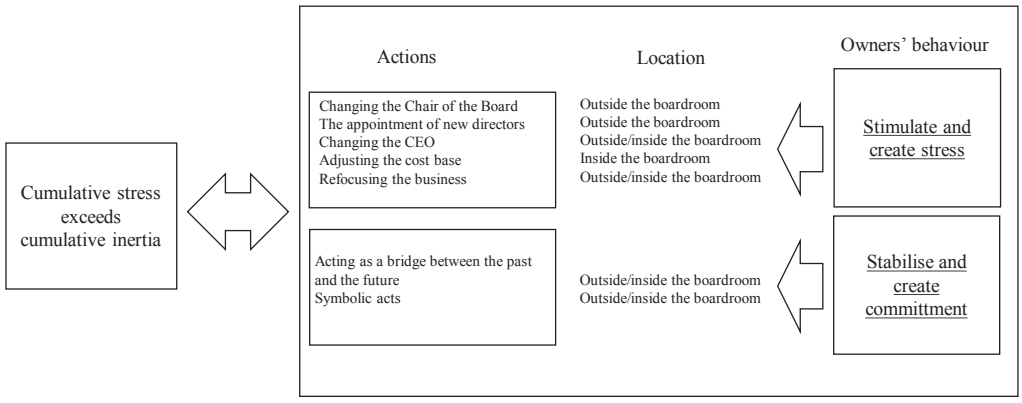
open and lively discussion in the board meetings. We also propose that the owners' practice of saving what they have to say in the board meetings until the end may have mitigated the risk. While none of these behaviours can fully remove the risk that the overuse of the owners' influence dismisses the role of the outside actors bringing in expertise and professionalism, we argue that they can effectively reduce the risk.

We also argue that the professional integrity of the outside directors and TMT members plays a key role. The data indicates that the owners' commitment to and reputation for hiring high-quality candidates, often of higher calibre than the size of the company would justify, helped to ensure that the independent-minded, non-family members did not hesitate to express their views. For example, the new CEO had no fear in proposing that the two businesses had no significant synergies, although this was not aligned with the owners' long-held view. Similarly, the board minutes and the interviews reveal how the board discussions steered some key decisions so that the final decision differed from the outcome initially expected. A decision on the R&D site location, for example, shows how the discussions outside the boardroom converged towards the board decision at the board meeting discussions.

Contribution: the framework for the owners' role in family firm strategic renewal

Our contribution extends the knowledge on the role of various organisational actors in different stages of strategic renewal in a family firm context. We conceptualise our findings by proposing an empirically grounded framework that builds on the key concepts of the model of Huff et al. (1992) regarding the role of cumulative stress and inertia in strategic renewal. Our framework depicts a situation where the owners no longer consider incremental changes to the firm strategy as adequate and initiate challenging the status quo. The owners' behaviour induce both stress, in order to stimulate the change, and stability, in order to create commitment to the new strategic direction as it is being adopted. To enforce the evaluation of the strategic alternatives, the owners stimulate the change by appointing new key decision makers and by driving strategies that change the dependency path of the firm. The targets of the owners' stimulating actions are the outside directors and TMT. Once the new strategic direction is adopted, the owners stabilise the disruptive change via symbolic acts and by linking the new strategy to the heritage of the firm and the family. The targets of these actions are the outside directors, the TMT and also the lower levels of the organisation and external stakeholders, such as community representatives. The owners' influence is exercised both outside and inside the boardroom; in some actions, the owners make decisions amongst themselves, while in others, they create influence as directors in the board meetings or through influencing the Chair of the Board or the CEO/TMT indirectly. In stabilising actions outside the boardroom, the owners also use their direct channels to the employees of the company and external stakeholders. Fig. 2 illustrates the link between the stress/inertia, renewal actions and owners' behaviour.

Our study makes several contributions to the literature on family firm renewals. First, we propose that the owners of a family firm can play an important resource role by influencing the interaction of cumulative stress and inertia (Huff et al., 1992, 2000) that governs the process of strategic renewal. While our findings are in line with the earlier research that recognises family firms taking similar actions to renew themselves as companies with a different ownership base (e.g. Bégin et al., 2010; Cater and Schwab, 2008; Canterino et al., 2013), we suggest that the owners play a key role in initiating and influencing these actions. Doing this, the owners influence the interaction of cumulative stress and inertia (Huff et al., 1992, 2000). We argue that the owners can have an advantage over outside directors and the TMT in terms of knowledge and motivation in evaluating the adequacy of the current strategy and



The framework to strategic renewal through interaction of stress and inertia adapted from Huff *et al.* (1992)

Fig. 2. The owners' role in a family firm strategic renewal.

recognising any potential need for radical change. As they do so, the owners have the authority to change the senior decision makers. New appointments can bring the new knowledge and cognitive models needed to trigger the evaluation of strategic alternatives. While the alternatives for the new strategic direction are being developed, the owners can influence the content so as to ensure that the proposal is in line with the family values and the firm's heritage. This ensures that the owners can take actions in the adoption of the new strategy that create commitment towards the new direction. In this way the renewal is pushed by the owners throughout time via stress and inertia.

We propose that by timing their contribution to the firm decision-making right, the owners can act as catalysts for the renewal process and support the renewal by actions that create commitment to the new strategic direction. This approach offers a new perspective on family firm renewal. While agreeing that the family firm characteristics can both promote and hinder change, Canterino et al. (2013) and Cater and Schwab (2008) find the inertia stemming from strong traditions to inhibit the change. We propose that tradition and change should not be viewed as counteracting forces in a family firm renewal and suggest that the influence of the owners' behaviour must be evaluated in its temporal context. While the owners' focus on tradition and continuity during *stages I* and *II* (Huff et al., 1992) can hamper change or even outright block it, we argue that at *stages III* and *IV*, when the new strategy is being developed adopted, the owners' behaviour can link the new strategic direction to the family's heritage and they can make symbolic acts to stabilise disruptive managerial actions; this can create commitment and facilitate the implementation of the new strategy. While we agree with Salvato et al. (2010:341), who recognise the necessary role of a family change champion '*legitimising new courses of actions through a reinterpretation of deeply ingrained family values*', we emphasise the importance of preceding this role with a role that triggers and drives the change. Our framework suggests that renewal benefits from the owners' active involvement throughout the process.

Second, we argue that a well-functioning governance structure and process can provide an institutionalised framework with which the owners can exercise owners' discretion and influence in a balanced way and this can be built in such a way as to be part of a firm's change capabilities. While Canterino et al. (2013) recognise the role of outside directors in enforcing change and Salvato et al. (2010) recognise the important role that a professional board can have in determining the quality of strategic decision-making, research on family firm renewals has overlooked the role of the board. Given the role that the board of directors has – both as a key forum with which a mature family firm's owners can exercise their power (Gersick et al., 1997) and its role in assessing a firm's strategic direction – we consider this an important shortcoming. In our case, the owners had a common agenda regarding the change and could have enforced a change of strategic direction through their voting power. However, being both committed to good governance and respectful of the professional management, they used their owners' discretion to change the Chair of the Board, who then facilitated the board discussions that made the owners' goals transparent and helped to frame the owners' concerns in the context of the industry change. After this, the owners influenced the content of the new strategy that was prepared by the new CEO in a number of ways. However, it is evident that using owners' influence requires a delicate balance in a professionally managed family firm. Based on our data, we argue that well-crafted board structure and processes can together play a key role in ensuring that the owners' influence on the renewal process is found to be productive by outside directors and the CEO, and not found to be a failure to make use of the non-family members' expertise (Gersick et al., 1997) or to undermine the rights of the owners who do not have similar access to the CEO and other TMT members as do those owners who serve on the board. In their case study, Salvato et al. (2010) discuss the importance of a strong family champion in paving the way for change, as well as in leveraging the tradition of legitimising future-oriented values. While they attribute these capabilities to a single owner, an owner champion who possesses referent power based on charisma and exceptional interpersonal skills that enable him or her to attract others, we argue that family firm owners can set up governance structures and processes that are not reliant on the skills or personalities of a single individual and hence can be institutionalised. We consider this an important aspect in terms of building sustainable change capabilities that are not dependent on dominant family members (Hall et al., 2001).

Third, our framework shows how the owners' influence is exercised not only inside the boardroom but also outside it. As Bettinelli (2011) observes, the fact that the data on boards of directors in family firms is very difficult to obtain has led to very limited empirical knowledge about family firm boards. While we agree, we also argue that the knowledge of the micro-level dynamics of the family firm board members outside the board meetings is even more scarce. Our data reveals how the board of directors formed a centre of gravity in the early stages of the renewal when the Chair of the Board joined. However, it also shows that the owners' influence, which was exercised outside the boardroom, had a significant impact on the process and the content of a family firm strategic renewal. Our case provides evidence that this influence was in a critical role, not only in matters that by corporate law or by the articles of association of a firm belong to the agenda of the shareholders' meeting (e.g., appointing the members of the board of directors and the Chair of the Board) but also on the topics that were on the agenda of the board of directors, such as the appointment of the new CEO or ratifying the new strategic direction. While the family firm literature recognises the risks that relate to the owners' using their influence outside the board of directors (Bettinelli, 2011: Gersick et al., 1997), we suggest that owners' influence, carried out outside the board, provides the owners with an important tool with which to steer change towards a direction that they can commit to, in other words towards a strategy that is believed to be a better fit with external demands and opportunities (Huff et al., 1992) but is also aligned with the owners' shared vision of the family company (Canterino et al., 2013). While Huff et al. (1992) recognise a firm's renewal history as a key determinant for whether a firm that experiences organisational stress ends up attempting a strategic renewal, we consider it worth exploring whether the intensity of the owners' involvement in the boardroom and outside it is linked to a family firm's decision to pursue a radical change or reject it when it is being considered. Based on our data, we also suggest

that both a solid board structure and process are of key importance in ensuring that the owners' involvement outside the boardroom happens in a balanced way that does not undermine transparent governance. Our case points to a number of ways in which this balance can be achieved. From the board structure perspective, an experienced outside Chair of the Board and independent, outspoken outside directors helped to ensure that the owners' influence did not overrun the board agenda and that the key matters were thoroughly debated in the board. From the process perspective, a clear division of the roles of the Chair of the Board, the CEO and the owners emerged as an important factor for effective decision-making, both inside and outside the boardroom.

Conclusions, limitations and future research directions

Our paper provides an overview of the first years of an attempted family firm strategic renewal and shows that the family firm owners who serve on the board of directors can act as catalysts for the renewal process and support the renewal by actions that create commitment to the new strategic direction.

Apart from our theoretical contribution to the literature on family firms and change, we believe that our insights can also help practitioners in mastering strategic renewal in a number of ways. First, the importance of the clear articulation of the owners' goals should not be underestimated. The practitioners need to ensure that the processes for this communication are in place. Understanding the owners' expectations provides invaluable help for the board and TMT in making choices when navigating through a changing and complex environment. Second, we argue that the behaviour of the family firm owners is a unique asset available to family firms, and while we do not suggest that a complex cognitive process, underlying organisational inertia and stress, can be masterminded by any sole actor or group, the tools available for the owners should be orchestrated with those of managerial leadership when attempting a strategic renewal. The structure and the processes of corporate governance need to be built to support this. We consider the co-operation with the owners, in particular in stabilising disruptive change and creating commitment to new strategy, as an important call to action also for non-family CEOs leading a family firm renewal. Third, while we recognise the owners' beneficial resource role in family firm strategic renewals, we encourage the owners' and directors' of family firms understanding of the risks and downsides related to the active use of the owners' influence. Overusing the influence in a way that mitigates the outside directors' and TMT members' roles can lead to losing the important benefits that external advice and outside views can provide. Also, in a cousin consortium where a few family members represent the owners in a board, the opaque use of the owners' discretion by selected family members can lead to undermining the shareholders' meetings' or the family council's role. A balanced combination of trust and transparency is necessary.

While the owners' active involvement alone does not guarantee success, we consider it an important factor contributing to the process of strategic renewal. We believe that our suggestion that the owners can and need to solve the paradoxes of preserving the past and creating the future is an empowering one and will find fertile soil among practitioners.

Our approach has a number of limitations. Considering our focus on only one company, and the generally limited number of studies focusing on the owners' role in organisational change, we welcome further empirical research on the topic. While single case studies provide an opportunity to investigate contextual factors in detail, focusing on larger samples would enable replication logic and understanding, for example, understanding the role of the owners in voluntary renewals versus turnarounds. Also, as our focus was only on the first years of an attempted renewal, longitudinal studies would provide insight both into successful and failed attempts.

We believe that further findings on the owners' capacity in the change situations of family companies can have interesting implications in the research on change capabilities (see, e.g., Kotter, 1996; Lähteenmäki et al., 2001; Canterino et al., 2013) and, in particular, in research on the capabilities that can be developed and sustained within the system of a family company. There were a number of questions that came up in this context in our research that we consider worth further exploration. If the owners are actively involved in renewal, does it affect the long-term impact of the renewal? How do experiences of past strategic renewals of a mature family firm influence the interaction of stress and inertia? For example, are the learnings more effectively institutionalised and hence better available for future use? In what ways do the outside directors' advisory roles contribute to the renewal and development of the change capacity? We also suspect that the role of the Chair of the Board in family firm renewals has been underestimated and provides interesting avenues for further research.

Declaration of interest

None.

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The sponsors had no role in study design; in the collection, analysis and interpretation of data; in the writing of the report; and in the decision to submit the article for publication.

Appendix

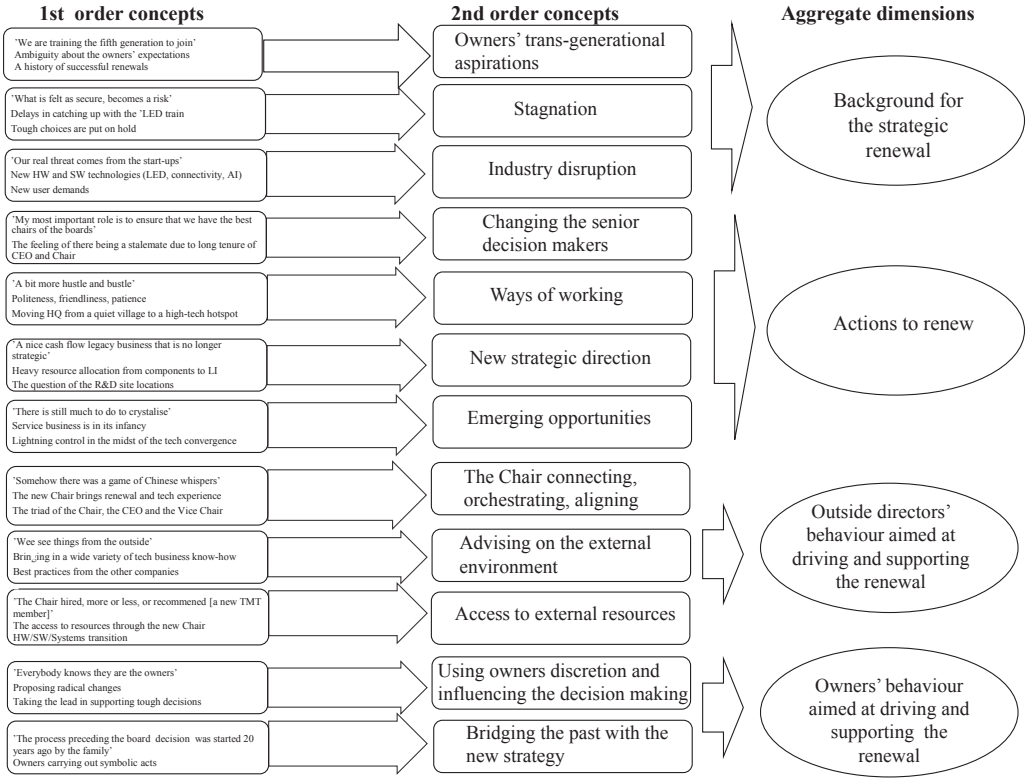

Fig. 1. The data structure.

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Publication II

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The advisory role of non-family board members: a case-based study of a family firm

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The advisory role of non-family board members: a case-based study of a family firm

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Abstract
The objective of this case-based study is to provide insights into the advisory role of non-family board members in a family firm attempting strategic renewal. By studying the non-family board members of a family firm in a Nordic country, we suggest that non-family board members' advisory role evolves in a dynamic way. We show at the micro-level how the role, content, intensity, and locus of advice change and how it can be both inertia- and stress-inducing. This facilitates the renewal and hence a firm's capacity to improve its alignment with changing external demands. We highlight the collaborative nature of the advisory role and the importance of the non-family member chair in ensuring effective board processes. Through our research we contribute to the understanding on the contextual nature of the board roles and tasks and on family firm renewals. We provide insights into how the family firm owners and the chair of the board can enhance the prospects that the non-family board members create value through their advisory role.

Keywords Board advice · Family firm governance · Non-family board members · Strategic renewal

1 Introduction

In recent years, the combination of often unpredictable economic and political changes as well as the introduction of new technologies has changed the environment in which companies operate (Porter and Heppelmann 2014; Schmitt et al. 2016). There is a need to close the gap between the evolving basis of competitive advantage and a firm's core competencies. The top management of firms must promote, accommodate and utilise new knowledge and behaviours to bring about

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change in the firm's core competencies and/or market positioning (Floyd and Lane 2000). Recognising and competing in new environmental conditions may call for new and different business skills (Castanias and Helfat 2001; Huff et al. 1992). However, attracting new talent into an organisation on a timely basis can be challenging. Hence a firm's internal knowledge base can fall short in the midst of a rapid change. The extant literature on the role of boards has recognised that board members provide advice for the CEO and other top management team ('TMT') members (e.g. Fiegener et al. 2000; Johnson et al. 1996; Hillman et al. 2000; Finkelstein and Mooney 2003; van Ees et al. 2008; Zahra and Pearce 1989). Despite of this both research and public debate has long focused on the board's control and monitoring role. However, recent years have witnessed a growing interest in the topic of the board's advisory role (see for example Åberg et al. 2019; Adams et al. 2010; Bankewitz 2016, 2018; Krause et al. 2013; Machold and Farquhar 2013) as well as board processes in general (see for example in this journal Derdowski et al. 2018; Huse et al. 2011; McNulty et al. 2011). Yet we still have a limited understanding of what board members actually do when they enact this role. As Bankewitz (2018) observes, it is necessary to gain insight into what takes place in reality inside and outside the boardroom (Finkelstein and Mooney 2003) This can be done by applying an approach that recognises both the contextual setting and the importance of processes (Pettigrew 1992). Half a century after Mace (1971) challenged the mythical concept of board members' roles vis-à-vis their real activities, we still have work to do in clarifying what the board members actually do when they fulfil their duties.

Chua et al. (1999, 25) defines a family firm as '*a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations or families*'. Strong mental models, the importance of tradition and a long-term perspective (Jensen 2003; Le Breton-Miller and Miller 2006; Miller and Le Breton-Miller 2005) can cultivate inertia in family firms. This can inhibit change and renewal that requires the promotion and utilisation of new knowledge and innovative behaviour (Floyd and Lane 2000; Huff et al. 1992). The research on family firm governance provides evidence that, in a similar way to non-family firms, the family firm board's advisory role can extend the knowledge base of the company. Board members who belong to the family may have extensive firm-specific knowledge. On the other hand, non-family board members, who we define as individuals who do not belong to the family and who are not part of the management team, i.e. who are also non-executive directors, can also play an important role. They can bring to the firm important general business knowledge and external contacts (Bammens et al. 2011; Bettinelli 2011; Gabrielsson and Huse 2005). However, while many scholars agree on the potential benefits of the non-family board members' advisory role, the question of how the non-family board members play this role at the micro-level has been overlooked in family firm research. Given this, as well as the economic importance yet high failure rate of mature family firms (Beckhard and Dyer 1983; Hiebl 2015), we argue that it is important to explore the advisory role of non-family board members. It can form a potential source of improving a firm's capacity to enhance its alignment with changing external demands and thus to achieve long-term sustainability.

The context of our study is the strategic renewal of a family firm in a rapidly changing environment. The target of the research is the content, process and influence of the advisory role implemented by non-family board members. Our case is a 96-year-old Finnish firm that is owned by the fourth generation of family members who no longer hold operational roles in the firm but participate as board members. With our results we contribute both to theory and practice. We deepen the conversation at the nexus of discussion on the contextual nature of the board roles and tasks (e.g. Carpenter and Westphal 2001; Huse 1998, 2005; Huse and Zattoni 2008; Krause et al. 2013; Lynall et al. 2003; Machold and Farquhar 2013; Minichilli and Hansen 2007; Pye and Pettigrew 2005) as well as on case-based research on family firm renewals (e.g. Bégin et al. 2010; Canterino et al. 2013; Cater and Schwab 2008; Salvato et al. 2010; Sievinen et al. 2019). While the role of the outside CEO in family firm renewals has been highlighted by scholars (Canterino et al. 2013; Salvato et al. 2010), we provide evidence of how non-family board members can also support the CEO and the family firm owners in rejuvenating the firm's strategies. We adopt the framework by Huff et al. (1992) that conceptualises the renewal through a model of stress and inertia that exist simultaneously in any organisation. Within this framework we show how the content, intensity and the locus of the advisory role can evolve dynamically over time. We propose that the non-family board members' advisory role can be both inertia- and stress-inducing. This depends on whether the advice given is within the boundaries of the current strategy or aimed to extend its boundaries, as is the case when a firm attempts a strategic renewal. We identify several advisory tasks that non-family board members can take up at different stages of the renewal in order to facilitate change. The extant literature acknowledges that board roles are carried out not only inside the boardroom but also outside it (e.g. Huse 1998, 2005, 2007; Huse and Zattoni 2008). We build on this as we highlight the role of spatial separation and advice inside and outside the board and distinguish between the different advisory tasks. By doing this we contribute to the findings of Machold and Farquhar (2013) that recognise the temporal separation of different board tasks.

2 Theoretical framework—non-family board members as advice providers in a family firm's strategic renewal

The theoretical plurality of governance research has provided fertile ground for board studies. In this section we identify three key tensions that are by no means exhaustive or fully capture the past achievements of board studies but nevertheless which are at the heart of the board research relevant to our study. We explore these tensions that arise from different research objectives, the demarcation of different board roles and the assumptions, and position of our own approach with regard to these questions. In addition, we discuss the case-based studies of family firm renewals and present our chosen analytical framework, the model of cumulative stress and inertia by Huff et al. (1992).

2.1 Objective of research on boards

The first tension deals with a fundamental question concerning the objective of the research on boards of directors and is reflected in the research in this field which has largely focused on two different streams (Machold and Farquhar 2013; Pugliese et al. 2009). First, there is research that aims to define what the boards are expected to do and how the board characteristics impact the firm's performance (Zahra and Pearce 1989). This approach has yielded limited results and has been repeatedly criticised for being largely based on archive data of large US companies with dispersed ownership, as well as dismissing factors such as board processes and behavioural aspects (e.g. Bammens et al. 2011; Bankewitz 2018; Gabrielsson and Huse 2005; Huse 1998, 2000; Huse et al. 2011; Zattoni et al. 2015). Consequently, the second stream has responded by applying multi-theoretical, processual and/or behavioural, social and cognitive approaches so as to understand the missing links between the governance of a firm, board efficiency and firm performance (e.g. Bankewitz 2018; Finkelstein and Mooney 2003; Forbes and Milliken 1999; Huse et al. 2011). For example, Huse (2007), Huse et al. (2011) and van Ees et al. (2009) have suggested the adoption of the behavioural theory of boards. This recognises the limitations to rational decision-making, satisficing behaviour, political bargaining and the role of routines (Cyert and March 1963; Simon 1947) in explaining decision-makers' behaviour as well as the importance of the deployment of knowledge concerning the control of managerial behaviour as a source of value created by boards. By focusing on actual board behaviour and the evolution and consequences of informal and formal structures, it provides new insights into the potential of the boards and boards as open systems. By studying the advisory role and its potential value not as theoretical constructs but as a real-life phenomenon in a highly contextual setting, our research has traction with this approach.

2.2 Labelling board's advisory role and content of advisory related tasks

The second tension we recognise relates to the challenges to reach consensus on labelling the board's advisory role and its content. While the control role of the board is strongly rooted in agency theory (Fama and Jensen 1983; Jensen and Meckling 1976), the advisory role has multi-theoretic foundations (Bammens et al. 2011). It can be viewed through dominant governance theories such as agency theory (Fama and Jensen 1983; Jensen and Meckling 1976), resource dependence theory (e.g. Pfeffer and Salancik 1978), the resource-based view (e.g. Ireland et al. 2003; Sirmon et al. 2007), stewardship theory (Donaldson and Davis 1991; Davis et al. 1997) and stakeholder theory (Donaldson and Preston 1995).

The theoretical plurality on the rationale of the board's advisory role is reflected in the differences in labelling the advisory role, and in particular in the use of the terms 'strategy', 'advice' and 'service'. In their seminal paper, Zahra and Pearce (1989) define three critical board roles: service, strategy and control. The strategy role includes the board's involvement in strategy formulation and supporting its

execution by providing expertise, while the service role refers to the board members' role in representing the firm in the community and providing legitimacy. Since Zahra and Pearce's study, most scholars have referred to the agency theory-based monitoring/control role of the board in similar terms, but for the other board roles (which Zahra and Pearce categorised as strategy and service) whose theoretical basis is more diverse, various labels have been applied (Machold and Farquhar 2013; van den Heuvel et al. 2006). While some scholars use the term 'advice' (e.g. Bammens et al. 2011; Finkelstein and Mooney 2003; Gabrielsson and Huse 2005; Johannisson and Huse 2000), the roles containing elements relating to advice provision have also been labelled strategy, resource or service roles (e.g. Johnson et al. 1996; Fiegener et al. 2000; Hillman et al. 2000; van den Heuvel et al. 2006).

In addition to the lack of consensus in labelling the advisory role, there is also a wide variance in what is considered to be the content of these activities. While enacting the advisory role in general is defined as giving counsel to and acting as a sounding board for the CEO and other top management (Johnson et al. 1996; Hillman et al. 2000; Fiegener et al. 2000; Gabrielsson and Huse 2005), it may contain many tasks. It can capture strategic issues (Zahra and Pearce 1989; van den Heuvel et al. 2006; Machold and Farquhar 2013) including strategic analyses (van Ees et al. 2008; Bankewitz 2016), proposing alternatives and providing information on the competition (Hillman et al. 2000) or be focused on networking, building the organisational reputation, providing legitimacy, or connecting the firm to external resources (Hillman and Dal 2003; Pfeffer and Salancik 1978). It can also include advising the CEO and top management on administrative and other managerial issues (Johnson et al. 1996; Bankewitz 2016), while in the family firm context some scholars also propose tasks such as mitigation and resolution of conflicts (Bammens et al. 2011; Siebels and Knyphausen-Aufsess 2012) as a form of advice. As Åberg et al. (2019) observe, many of these tasks can also be categorised as 'service' tasks as proposed by Johnson et al. (1996). More recently, scholars focused on actual board behaviour have offered new insights to further conceptual clarity. Bankewitz (2016, 2018) calls for a higher granularity of tasks. He suggests differentiating between functional advice that refers to advice on general management as well as financial and legal questions and firm-specific advice that includes board members' advice on matters that relate to functional production, information management and marketing. On the other hand, Machold and Farquhar (2013) question the discrete categorisation of the board tasks based on various theoretical backgrounds. Instead, they suggest that the board tasks are temporal and contextual, and as such, the intensity of the particular task evolves and adapts in response to the changing strategic context.

In our research, we include all the above tasks related to service, strategy and providing counsel in what we label as belonging to the advisory role. We consider the board members' advisory role to include board members individually or the board as a coalition sharing their insights or making recommendations to the CEO, other TMT members or shareholders on a decision or action to take in a particular situation. Åberg et al. (2019) also observe that terms such as 'board tasks', 'roles', 'activities' and 'functions' are often used interchangeably. When we discuss the specific activities taken up as a part of the process of providing advice, we refer to them as 'tasks'. When we discuss a wider concept that also includes social constructs such

as identities and perceptions that relate to non-family board members' actual or expected performance of these tasks, we refer to it as the 'advisory role'.

2.3 The advisory role of non-family board members

The dominance of cross-sectional research approaches has to some extent hidden contextual and dynamic aspects that inherently relate to board roles (Gabrielsson and Huse 2004; Machold and Farquhar 2013). Still, several contextual factors such as firm resources, size, ownership structure, life cycle, dominant ideology, leadership, location and industry (Huse 2005; Johannisson and Huse 2000) can influence the governance of a firm. For example, Gabrielsson and Huse (2005) observe that family firms typically have small boards composed of a few family managers in addition to the owner-manager. However, in later-generation family firms, the board structure often changes (Gersick et al. 1997) and as the ownership of the firm becomes more dispersed, the need for more formal governance increases and non-family board members are appointed more frequently.

In the context of studies focusing on the role of non-family board members, we recognise the third important tension that reflects the difference between scholars posing a question whether non-family board members can add value and if so, in what role, as opposed to asking how the non-family board members can add value. Early studies on the role of non-family board members in family firms were based mostly on agency theory. They emphasised non-family board members' roles in terms of control or monitoring the varying interests of different shareholder groups (Andersson and Reeb 2004) and the pressure of non-family shareholders was seen the primary reason for appointing non-family board members (Fiegener et al. 2000). Schwartz and Barnes (1991) however, recognise that non-family board members are well positioned to support the firm not only in monitoring but also in terms of providing contacts and a long-term perspective. Johannisson and Huse (2000) in turn suggest that introducing non-family board members to the board of a small family firm is influenced by and influences the prevailing management ideologies, but an active board with non-family board members can help to exploit the tensions between competing ideologies in a fruitful way.

As Gabrielsson et al. (2016) observe global competition and growingly complex governance environments have accelerated an interest among family firms in how the boards can create value. Research interest in the advisory role has also increased. For example, van den Heuvel et al. (2006) observed that in Belgian family SMEs, CEOs perceive the board's advisory role to be more important than its control role and suggest that a well-functioning board that includes non-family board members can add value through its advice. Jones et al. (2008) focus on affiliate directors and show that in family firms their sharing of knowledge and expertise reduce diversification risks as perceived by the family managers and hence stimulate growth strategies. Brunninge et al. (2007) provide evidence on Swedish SMEs, suggesting that they exhibit less strategic change than firms with widespread ownership, but that having board members who are not family members or not working in the firm on a daily basis or extending the size of the TMT can help to achieve strategic change.

Voordeckers et al. (2007) in turn propose that a family firm board structure reflects family goals and characteristics. They argue that while a strong focus on family goals may obscure family members from seeing the value that non-family board members add, their advice on topics such as succession can be highly valuable. On the other hand, Bankewitz (2018) points out that in smaller companies with a more concentrated ownership, the board may be needed not only as a resource. It can also be in a better position to enact its advisory role, as there is less need for the board members to balance diverse shareholder interests that are typical of larger public companies.

Over time, the debate about whether non-family board members can add value has been increasingly replaced by suggestions that the structure of the board or attributes of individual board members alone do not ensure value creation but that mediating factors such as board processes, play a major role (e.g. Bettinelli 2011; Gabrielsson and Winlund 2000). Gabrielsson and Winlund (2000) show a positive relationship between the use of knowledge, board members' preparations for meetings and the board's formal routine, and how well the board perform what they define as its' service role. Overall, the board's involvement and routines, such as the board agenda, protocols and division of work between the board members are shown to be important for the board's ability to perform its tasks effectively. Bettinelli (2011) studied the impact that non-family board members have on board efficiency in Italian family firms. She argues that a greater proportion of non-family board members improve effort norms and board cohesion in family firms with active boards. Bettinelli (2011) also suggests that the beneficial effect that non-family board members can increase as the firm becomes more mature. Zattoni et al. (2015) studied family involvement and board processes. They suggest that while board processes in general have a positive impact on board task performance, family involvement has a negative influence on cognitive conflicts but a positive one on effort norms and the use of knowledge and skills. Bankewitz (2016) in turn distinguishes between the types of advice and highlights the importance of the chair of the board in terms of how the board utilises its advisory capacity. In a study of Norwegian SMEs, Bankewitz (2018) applies effectiveness concepts (Forbes and Milliken 1999) to analyse the effect that the board members' knowledge base and diversity has on two types of advice: firm-specific advice and functional advice. Bankewitz's (2018) findings emphasise the importance of differentiating between the types of advice as well as the board members' general business knowledge and organisational knowledge. He proposes that general business knowledge (largely based on the board members' previous board experience) does not contribute to the boardroom culture where the board members actively make use of their knowledge or board task performance, whereas organisational, firm-specific knowledge has a positive relationship with the use of knowledge.

Gabrielsson et al. (2016) offer an integrated approach to the board's value adding role in family firms by combining resource-based perspectives and a value chain analysis (e.g. Porter 1985) with team production theory (Alchian and Demsetz 1972; Kaufmann and Englander 2005; Blair and Stout 1999) into extended team production approach. Team production theory suggests that valuable resources can be contributed by several stakeholders and that the value distribution should be made

so that it benefits all the stakeholders who contribute resources. Gabrielsson et al. (2016) observe that in family firms the concept of value goes beyond what is generally recognised as value in the corporate literature. They propose that the board of a family firm can contribute to the value chain by taking up different board tasks, including advisory tasks, and stewarding the key value-adding stakeholders. They suggest that these tasks are supported by board competences as well as by board culture, leadership provided by the chair, structures and developmental activities (Huse 2007).

These and several other studies have reduced the doubts on the potential value of non-family board members. These concerns included for example whether a family firm's real decision-making occurs outside the boardroom (Gersick et al. 1997), or that outside directors in general may not have the required time to contribute as they are involved with multiple boards and interact as a coalition only infrequently (Forbes and Milliken 1999), or that they lack access to or do not have the required knowledge of the firm and its environment (Ford 1988). These are viewed now more as process and behavioural issues (which also underlines our research focus) than fundamental doubts on whether non-family board members have the potential to add value.

2.4 The advisory role in the context of family firm strategic renewal

2.4.1 Empirical evidence on the board's advisory role in the context of family firm strategic renewal

Strategic renewal is a prominent yet elusive concept in the literature on organisations and management. Different theoretical backgrounds have led to a lack of consensus about what strategic renewal consists of, and Schmitt et al. (2016) and Agarwal and Helfat (2009) have called for increased conceptual clarity. In our research we adopt the definition by Schmitt et al. (2016, 5) of strategic renewal in that: '*strategic renewal describes the process that allows organizations to alter their path dependence by transforming their strategic intent and capabilities*'.

Several scholars have provided evidence that a firm's life cycle influences the board's roles and tasks. Huse (1998) shows that the interactions between the board and internal and external stakeholders have an influence on board roles. He notes that the advisory role of the board is particularly prominent in a firm that is facing market reorganisation, whereas in a distressed firm with a need to raise financing, the board focuses on a monitoring role. In a firm that is recovering from bankruptcy, the legitimation role becomes prominent. Focusing on the influence of trust between the internal actors, board members and external stakeholders, Huse and Zattoni (2008) in turn show, in a slightly different setting of firm life cycles than Huse (1998), that the advisory role of the board is dominant when a firm is in a growth phase, while in a start-up phase, legitimation was found to be the main board role. Similarly to Huse (1998), Huse and Zattoni (2008) suggest that if a firm is facing a crisis, the board's focus is on control- and monitoring-related roles. However, while an organisational crisis may elevate the importance of the board's control role, the role of advice and

the board's ability to provide it cannot be dismissed in such situations. Minichilli and Hansen (2007) provide evidence that board diversity becomes particularly relevant in these situations. This suggests that diversity generates a variety of views and alternatives that can help to overcome difficult situations and strategic inertia.

While family firms and other SMEs may share characteristics such as their size and focused ownership, family ownership may play a particularly important role when a firm is attempting a strategic renewal (Canterino et al. 2013; Cater and Schwab 2008). A family firm's characteristics, such as the importance of tradition, a long-term perspective and strong mental models (Jensen 2003; Le Breton-Miller and Miller 2006; Miller and Le Breton-Miller 2005) can influence the renewal process, even when the owners are highly committed to necessary changes (Sievinen et al. 2019). Research on the role of boards in the strategic renewal of family firms is scarce. In their case study of two US-based family firms attempting a turnaround, Cater and Schwab (2008) recognise the role of the board as a key decision-making body. Canterino et al. (2013) discuss the changing of a family member dominated board into a board composed of non-family board members as a tool to combat the cultural inertia of the firm and the family. The advisory role of the board is also highlighted in a study of an Italian family entrepreneurs' exit from the founder's business, and subsequent entrepreneurial renewal by Salvato et al. (2010). In this research, a family member considered the well-functioning board to have improved the quality of strategic decisions. Sievinen et al. (2019) in turn have shown that in an attempted family firm strategic renewal, owners that serve on the board play a key role in triggering and facilitating the change both inside and outside the boardroom. However, based on our review of the relevant literature, we argue that the role of non-family board members in the strategic renewal of family firms is still mostly uncharted in strategic renewal research.

2.5 The model of cumulative stress and inertia—our analytical framework

When analysing and making sense of our data, we reviewed the data and emerging concepts through several theoretical frameworks to find a relevant analytical framework. Our decision to use the model by Huff et al. (1992) that depicts renewal through a model of cumulative stress and inertia, was driven by several of reasons. First, the concepts of inertia and stress fit well with the dynamics revealed by our data. Second, the extant research on family firms discusses inertia as a key force in family firms (Jensen 2003; Le Breton-Miller and Miller 2006; Miller and Le Breton-Miller 2005) and hence is of interest when studying change in family firms; and third, the ability of the model by Huff et al. (1992) to operate at several of analytical levels (individual, group, firm) is helpful when analysing highly detailed and complex case data such as ours. Figure 1 illustrates the key concepts of the model by Huff et al. (1992).

The model by Huff et al. (1992) draws on the concepts of satisfying behaviour and cognitive boundaries (Cyert and March 1963; Simon 1947), innovation adaptation (see, e.g., Rogers 1962; Lave and March 1975; Abrahamson 1991) and schema theories. The key concepts, inertia and stress, that regulate the balance of the

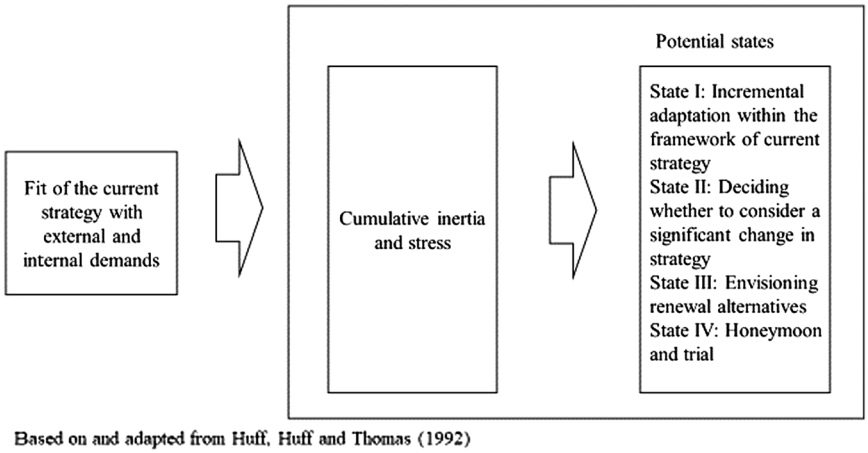

Fig. 1 Key concepts of the model by Huff et al. (1992)

organisation between the status quo and change are viewed to exist simultaneously. Inertia is defined as the level of commitment to the current strategy and resistance to renewal outside its boundaries (Huff et al. 1992). The organisation remains at the status quo (state I) as long as the current strategy delivers satisfactory results as it is or by making only minor changes to it. As time goes by, organisational inertia grows as there is an increasing economic and psychological commitment to the current strategy (Huff et al. 1992). However, the passage of time also sows seeds for change. Changes in the environment put pressure on the chosen strategy or the management may not succeed in executing the strategy properly, even if it were suited to the external and internal conditions. As dissatisfaction with the current strategy grows, i.e. stress, the organisation faces a decision about whether or not to consider a radical change in strategy (state II). If the organisation decides to consider a radical change, it moves on to state III to develop and evaluate renewal alternatives. The risks of a possible new strategy are assessed, and if the benefits are expected to exceed them, the organisation is ready to enter state IV. In this state the early excitement about the new strategy, the 'honeymoon', is followed by the first observable results. Huff et al. (1992) suggest that if the results fulfil the expectations adequately and start to accumulate, the commitment to the new strategy, i.e. inertia, starts to grow again, and the organisation again enters status quo.

3 Methods and materials

3.1 Methodology

Our decision to choose a qualitative approach and to focus on a single case and study it in depth was driven by the formulation of our initial research question. As Ahrens and Khalifa (2013, 24) observe, the qualitative research approach is '*an*

important alternative to treating the various components and processes of corporate governance as black boxes whose key elements are assumed to be somehow "standard" and thereby known without context-specific inquiry'. Given our interest in the micro-level processes of the board of a family firm, we opted for a single case study to ensure access to highly detailed data As for example Huse et al. (2005) have shown, a qualitative single-case study can provide a good way to acquire in-depth knowledge about boardroom dynamics and behaviour. We chose our case using a purposive method (Eisenhardt 1989), as the key driver for the selection of the case company was our knowledge of its ongoing attempts to carry out a strategic renewal and the access that the owners granted us to the members of the board, top management and the company archives.

To a large extent we subscribe to the interpretivist view, which views reality as socially constructed and sees the aim of case-based research to develop insights into the phenomenon studied in all its uniqueness, contextuality and complexity (Leppääho et al. 2016). However, we differ from a strictly interpretivist approach in two important ways. First, in line with the critical realist approach, we accept reality to exist independently of ourselves and believe that our data grasps it only imperfectly (Sayer 1992). This means that we accept using data and source triangulation in our attempt to develop a plausible view of events, for example, if interviewees do not recall the sequence of some past events. Second, similarly to Gioia et al. (2013), we do not consider our findings to be fully idiosyncratic and hence inapplicable to other domains but assume that we can recognise concepts and processes that can be structurally similar (Morgeson and Hofmann 1999) between cases. However, we recognise that while the concepts proposed by us can also be applicable to other mature family firms that have both owners and non-family board members serving on their boards, our approach does not enable us to present prescriptions on how all family firms, or even family firms of this size and at a similar development stage to our case company, should aim to compose their board or organise their board processes. Contexts such as cultural differences, differences between the sectors as well as individual preferences and behavioural models affect these needs.

3.1.1 Data collection

We started the data collection with a meeting with one of the owners who provided information on the company and the process it was going through. We then conducted 12 semi-structured interviews over 5 months to collect our primary data. The interviews that were recorded and transcribed were scheduled to last between 60 and 90 min. We interviewed all the board members; two owners (one of whom serves as vice chair of the board), an outside chair of the board, and three other outside board members. We also interviewed several other people that had participated in the board meetings in some other capacity than as board member: an ex-CEO, the current CEO and three other TMT members, including the CFO of the firm who served as the secretary of the board but also as acting CEO in 2016 between a CEO leaving and the new one joining. Access both to the board members as well as the CEO and other TMT members was important for us to achieve a full view of the board's role, tasks and behaviours. We worked hard to ensure that the questions in

our semi-structured interviews were not leading, yet we allowed earlier interviews to influence the following ones as we gained more information. Secondary data including board agendas, board minutes and board presentation materials provided us with important information in terms of timing, decisions and reported actions, and other available market information provided us with an in-depth understanding of the firm, its background and the industry (Table 1).

3.1.2 Data analysis

To ensure the transparency of our methods, we chose to apply the Gioa method (e.g. Gioia et al. 2013; Nag and Gioia 2012) to support our data analysis and theory building. The data collection and data analysis were conducted in an iterative manner. Based on our primary and secondary data, we first worked to create a plausible view of the events that we used as an initial data organisation tool (Langley 1999). This provided us with a processual lens to view the data. To support the identification of 43 data-driven categories, we used the N-Vivo software package. We wrote a description for each code and named them after representative quotes so as to create the first-level data structure.

In our second-level analysis, we complemented the data-driven codes with theory-based codes derived from the relevant literature on corporate governance and strategic renewals. Our case-based approach enabled us to link the data both to content and process aspects provided by the extant literature on strategic renewal and governance (e.g. Bammens et al. 2011; Cater and Schwab 2008; Canterino et al. 2013; Grinyer et al. 1988; Greiner et al. 2003; Huff et al. 1992; Pfeffer and Salancik 1978; Schoenberg et al. 2013; Stopford and Baden-Fuller 1990; Schweizer and Nienhaus 2017). When doing this, we identified several topics that related to the distinctive role, tasks and behaviours of the non-family board members and the owners. We then decided to focus on these two topics separately in two different papers in order to ensure an adequate focus on both themes.

The theory building stage was characterised by an iteration between the data and the relevant literature in an attempt to reveal the relationships between the key concepts relating to the background of the renewal, renewal strategies and the role of the non-family board members. While the existing theories and frameworks of the board roles and family firm renewals helped us to define the phenomenon—the non-family board members' advisory role in a strategic renewal—we felt that the existing literature fell short of studying it empirically at the micro-level and addressing the questions necessary to understand the essence and the evolution of this role.

When interpreting a socially complex phenomenon, it is important to remain open to perspectives and theories in order to create enhanced understandings (Nordqvist et al. 2009). As we worked in an iterative way, we added new informants to our initial list of interviewees and also went back after the interviews to clarify some of the answers or to gain new information, to ensure that we had adequate data for analysing board member behaviour and to gain data to confirm or reject our initial interpretations. This was particularly important when assessing the intensity of the enactment of the advisory role and its content at different stages of renewal, as we had to rely on the informants' descriptions of their past behaviour. For this analysis

Table 1 Data sources

Data source	Minutes or megabytes	Pages	Number
Primary data			
Interviews between 6/2017 and 10/2017	Each interview scheduled between 60 and 90 min, 632 MB audio recordings	291 pages	12 (11 face-to-face interviews, one phone interview)
Secondary data			
Board of Directors meeting materials (agendas, minutes, presentation materials)	41 MB		98
Public company materials (white papers on technology, customer magazines, product brochures)		318	13
Published history of the founder/company		141	1
Newspaper and magazine stories			4
Review and discussion of the findings with the case company representative	Approx. 105 min of face-to-face discussions, email correspondence		2 discussions, email correspondence
Member checking in a case company board meeting	60 min of face-to-face discussion, draft findings provided for the board members prior to discussion		
Meeting with a group of seasoned non-executive directors and family firm practitioners to discuss the findings and receive feedback	Approx. 45 min face-to-face discussion		

the board minutes offered only limited support, as they recorded only what had been decided inside the boardroom in the board meeting.

At this stage, we also reassessed our decision to focus on the owners' and the non-family board members' roles in separate papers in order to ensure that no key dependencies were lost because of this approach. Gradually, we reached a stage where we felt that we no longer received new data that was within the scope of our study, no new themes emerged, and that we had adequate clarity to finalise our framework which revealed the relationships between the key concepts and to conceptualise our findings. During the drafting of our framework, we were privileged not only to receive member-checking on the course of the events but also high-quality feedback on the interpretation of the data. We met with the board of directors of the case company for a group discussion in addition to requesting individual feedback from each of them. We also met with a group of seasoned practitioners who provided us with valuable feedback.

3.2 The case company and governance context

In 2016 the case company, which focuses on lighting controls and lighting components, had a turnover of EUR 76 million and employed 260 people. Over 97% of the sales were generated outside Finland; in other parts of Europe and Asia. The company was founded in 1921 and has gone through several transformations, shifting its focus first from radio assembly to its own manufactured radios, then in the late 1940s and early 1950s to lighting components and TV sets. During the 1970s, the company focused its operations on lighting components only. In 1990 the company acquired full control of a leading lighting control company in the UK. The company has a strong balance sheet but has experienced a decline in sales.

Owned by the same family since 1921, the company is controlled by a group of six cousins, two of whom are current board members of the company ('the owners'). In our case study we have focused on the period between 2015 and 2017, when the family and the board of directors of the company triggered a renewal process to rejuvenate the firm's strategies after several years of lacklustre sales development. While one of the owners had headed the company in the 1990s, during the period we studied, none of the family members were involved in the daily operations of the company. Hence, the company can be described as family-owned but not family-managed (Chua et al. 1999) and, according to the typology of Gersick et al. (1997), as a mature business in the cousin consortium stage.

Between 2014 and 2017 the board was composed of two family members, one of whom served as vice chair of the board, and four non-family board members, including the chair of the board. All board members were non-executive directors and the non-family board members are independent from the company also by not having any close business ties with it or owning any stakes in it. The changes to the board composition between 2014 and 2017 included an appointment of a new non-family member chair as well as two other non-family board members replacing the previous non-family chair and a non-family board member who resigned.

The Finnish governance system is based on civil law and has three key decision-making bodies: the shareholders' meeting, the board of directors and the managing director ('CEO'). The board is accountable to the shareholders and is responsible for the organisation of the company's operations. The board usually consists of members who are non-executives and the corporate governance code for listed companies recommends separating the roles of chair and CEO. The CEO is appointed by the board and he or she is responsible for the day-to-day operations of the company. Finnish corporate governance also recognises a supervisory board, but it is not recommended for listed companies and is usually found in no other than state-owned companies.

While Finland lacks the strong traditions of SMEs and family firm governance research found in the neighbouring countries of Norway and Sweden and hence its governance system is less known among the governance scholars, the three Nordic countries share similarities with active boards, the separation of the CEO and chair roles (legally enforced in Norway and Sweden for listed companies, and as noted above, part of the recommended corporate governance code for listed companies Finland) and clearly articulated separate roles for the board and CEO/executive team. As proposed by Sinani et al. (2008), the Scandinavian countries (Denmark, Norway and Sweden) share many similarities between their informal governance mechanisms, so aspects such as trust, information diffusion and reputation mechanisms play a significant role. We argue that Finland shares these '*small world*' (Sinani et al. 2008, 27) characteristics.

4 Analysis and discussion—the non-family board members' advisory role in the strategic renewal of a family firm

In this section we reflect the non-family board members' advisory role in our case company within the strategic renewal frame by Huff et al. (1992). In line with Huff et al. (1992), we define advice that relates to the existing strategy without challenging it or which proposes only minor modifications to it as inertia-preserving advice and advice that relates to proposing or promoting a new strategic directions as stress-inducing advice.

4.1 Strategic renewal state I and state II—from the status quo to considering a radical change in strategy

While the first decade of the 21st century had been characterised by a successful turnaround of the component business, by around 2014 it was starting to become evident to the owners of the case company that the pace of external change was exceeding the change capabilities of the firm. The CEO ('CEO 1') and the incumbent chair of the board, both non-family members yet loyal and trusted by the owners, had been working together for 11 years. Both were approaching retirement age. The company's core Finnish-based business, lighting components, was being outperformed by the largely UK-based lighting control operations, a

business viewed as non-core by the management. The owners had been strong in their belief in the synergies between the two businesses but proving those benefits had been challenging. While many of the employees appreciated the security provided by working for a company that took pride in being a good long-term employer, attracting new talent was not easy due to the location of the sites and the limited means to compete with larger technology companies. Yet the balance sheet was strong and difficult decisions were easy to postpone.

Although the non-family board members and management did not propose major changes, the owners and the family members not involved in the governance of the firm were starting to feel increasingly uneasy about the future prospects of the company. The owners felt that the non-family board members would not take the initiative in triggering the change unless the owners clearly communicated their appetite for radical changes.

> *If the non-family board members think that we [*owners*] are very satisfied, they will not drive the change […] they may think that the firm could do twice as well as it does now, but if they think the family is happy and they want this management, few will challenge the owners […] [*the non-family board members*] or question things [*the direction of the firm*], and usually only after the problems have become large.* (Owner, member of the board)

In many ways, the situation of the company reflected state I in that management had little incentive to propose changes to its strategy as it would be cumbersome and time-consuming to explore alternative ways of working (Huff et al. 1992). Furthermore, the non-family board members' advisory role in state I was carried out largely within the boundaries of the existing strategy and did not initiate any radical changes. The extant literature offers several possible interpretations for this. Sievinen et al. (2019) suggest that non-family board members may not know the owners' true expectations. Consequently, the outside advisors may compare a firm's performance against redundant benchmarks. On the other hand, power and authority may also play a role. The non-family board members may have a sense of obligation to support those who have favoured their appointment and avoid challenging these decision-makers (Bettinelli 2011; Daily and Dalton 1995; Wade et al. 1990; Zattoni et al. 2015) or risk the owners' sensitivity to 'outsiders' criticism of their firm (Gomez-Mejia et al. 2011), which in turn causes the non-family board members not to express their views freely.

In order to trigger change, the owners signalled their appetite for change by starting a search for a new chair of the board. The process followed the well-tested practice of the owners for looking for new non-family board member candidates that typically were appointed for a four-year period.

> *When we know where we are heading to, we review what* [competences] *we have in the management team, and what we have in the board. And what we need more of, what less and how complementary the skills sets and the backgrounds are. Then we start the search* [for non-family board member candidates] *with the help of head-hunters*. (Owner, vice chair of the board).

The requirements for the new chair were carefully drafted as the owners recognised that the profile of the new chair could be based on the firm's immediate needs but that it must reflect the needs to reach the desired state. First, the person had to fully appreciate and understand the importance of the increasing pace of change in the industry. Second, the optimal candidate had to have experience of carrying out a large-scale transformation. Third, the owners wanted to find someone who could comfortably hold a dialogue at all levels of the organisation. The search was triggered with a help of a professional head-hunter who had been used by the owners in the past. While modest in his demeanour, the winning candidate had extensive first-hand experience in leading a global business that had witnessed value migration from the hardware to the software layer.

While the owners had played a key role so far in triggering the change, the non-family board members' role in supporting the renewal process began to grow as the new chair was appointed. The new chair helped the owners to make their expectations clear for the company performance and to make appetite for the change known both to the non-family board members and the management. Marking the start of considering a radical renewal, state II (Huff et al. 1992), the new chair launched a stringent strategy process that revealed a lack of market and competitor data. In this process the non-family board members advised on best practices and standards for professional ways of working and hence challenged the existing organisational processes. This played an important role in facilitating the change as while the established decision-making routines promote efficiency and stability (Cyert and March 1963; van Ees et al. 2009), they can also form an important barrier to contemplating change and recognising changes in the operating environment (Huff et al. 1992).

> *[*We were in*] such a niche market that you just can't go and buy objective market data… this led to a situation where we had no metrics and we had no capability to take a view of how the market was developing apart from very general views […] it all becomes fluffy, there are lots of slides and everything is very general. The direction may be right, but it is very difficult to evaluate [*the results*] and have a precise action plan as you can't measure whether you are on the right track or not.* (Chair of the board)

Apart from improving the processes, the new chair of the board took a key role in helping the owners and the board to assess the situation from an outside-in perspective. The owners, who had followed the industry very closely for many decades, knew that the component business would not help the company to grow but found it difficult to grasp what was happening in the rapidly developing lighting control market. The varied background of the non-family board members in technology, sales and marketing enabled them to contribute from several different perspectives to form a view of what was going on in the industry. After several iterative rounds of strategy work, the initial assessment was clear: the company's core business was at risk as its competitive advantage in basic components was being eroded and at the same time the company lacked direction and the necessary software competencies to tap into new opportunities in the lighting control business.

The advisory task of the non-family board members was related to assessing the external landscape and was largely enacted inside the boardroom. The new chair of the board promoted an open discussion between board members and between the board and the management. In addition, the new chair facilitated frank dialogue between the board members by reserving 'board only' time at the end of each board meeting. During these sessions the CEO or other TMT members were not present, and no minutes were kept.

While the first strategy review process was felt to generate important market insights that the firm had lacked and the implementation of this task raised the level of the board task performance (Forbes and Milliken 1999), some directors felt that there was too much analysis at the expense of the actual conclusions. Our data suggests that the board or individual board members did not address this issue with CEO 1. We interpret this is as the board's focus having moved from an advisory to control role as the board started to assess the performance of the current CEO.

However, although the result of the initial strategy assessment fell short of the expectations of providing a clear plan of how to renew the company, it enabled the board to grasp the drivers of the industry turbulence and the scope of the necessary change, as well as to take a view of the new competencies required. Hence, in the late summer of 2016, the board felt some satisfaction in having gained an increased understanding of what was going on in the industry. It had also proved that the owners' suspicions were right; while the long-serving CEO was an expert in the volume manufacturing of lighting components, he was not equipped with the skills necessary to ensure future growth. The process of searching for a new CEO was initiated. Finding candidates with the right skills set was not easy. While all candidates went through a transparent search process led by a professional head-hunter and the owners exercised influence over the process, it was the contacts of the chair of the board that facilitated the identification of the best candidates. At the end of the process, the new CEO ('CEO 2'), a seasoned tech executive, joined the company and was tasked immediately with preparing a plan for the new strategic direction.

Luckily, the new CEO was not alone. After the initial strategic assessment, the board had concluded that if the firm was to be successful in the new environment, not only a change of CEO was necessary but also other new resources were needed.

> *It* [the initial strategic assessment] *led to the conclusion that as a large share of the firm value was attributable to the lighting control business, we must think about attracting new competencies…as one moves from embedded architecture to a layered one, as it was clear that would happen* [in the lighting control industry]*, it was normal that we did not have such resources in-house…* (Chair of the board)

The chair played a key role in supporting the CEOs outside the boardroom by providing access to resources who could lead and support the renewal in these recruitments. For example, the head of research and digital, the head of strategy and the head of human resources shared the same corporate background as the chair of the board.

> [The new chair of the board] *hired, more or less, or recommended* [the new chief digital officer and director of research] *to be hired.* (Non-family board member)

The data suggests that individual board members were active outside the boardroom advising also on more operational issues related to resourcing, such as moving headquarters from a quiet country town to the capital region to ensure better access to software engineering resources and providing benchmarks from other companies. A non-family board member, for example, invited the TMT members to visit the high-end R&D premises of his own company to provide an example of a modern R&D site. This and other efforts supported the decision-making to move the company headquarters from a quiet country town to the capital region just before CEO 2 joined.

> *And I was one of the loudest ones I think on that front* [promoting the move of the headquarters to the capital region]*, as far as I know because of the experiences on the software hiring that we* [in the company headed by a non-family board member*] had and how much we struggled to hire software* [engineers even] *in downtown Helsinki… I invited…management team members as my guests to our* [the company headed by a non-family board member] *office in Helsinki showing them a modern software setup.* (A non-family board member)

We consider these efforts to be important tools for non-family board members to widen the horizons of management. This shows that while the role of the board is a cognitive one (e.g. Huse 2007), enacting advisory role can require highly concrete actions that take the actors outside the walls of the boardroom.

4.2 Strategic renewal states III and IV—envisioning renewal alternatives and adopting the new strategy

Tasked with formulating a detailed plan on the strategic direction of the firm, CEO 2 conducted a series of interviews with the employees and external stakeholders. As the plan was being drafted, both the non-family board members and the owners were actively contributing to it. We observed three behaviours in the discussions between the non-family board members and the CEO. First, those non-family board members who initiated discussions outside the board meetings focused either on the topics that they felt they were experts in or discussed the business situation and the renewal options in more general terms.

> *I think we all* [non-family board members] *had extended offline meetings with* [the CEO] *and we all had our own sort of interest areas or areas that we thought that he should know about.* […] *I talked with the chair of the board offline and then again I went and talked with* [head of research and digital]. *I*

> *had some discussions with* [one of the owners]*, e-mail–based…* (A non-family board member)
>
> [I talked with the CEO] *about people, members of the management team, reductions in the headcount, and a lot about what we do with the* [component business]*… we talked about things like this when drinking morning coffee; it wasn't based on any* [formal] *agenda.* (A non-family board member)
>
> *I think my biggest contribution as a board member is actually provided between board meetings, when I can act as a sounding board in my own area of expertise*. (A non-family board member)

Second, there is a difference between how CEO 2 assessed the board members' advice on strategic issues outside the boardroom and how the board members interpreted it. CEO 2 recalls how he initiated one-to-one meetings with all the board members:

> *In other* [ownership] *structures I would have likely just gone into the board meetings and presented things to everybody equally. I think the whole one-to-one approach I actually invented, because I wanted* [a representative of the owners, vice chair of the board] *to be in the loop before* [the board meetings where key strategic decisions were discussed]*, and then not to single him out, I decided to do one-to-ones with all of them*. (CEO 2)

We interpret the data to mean that while the board members viewed the one-to-one meetings with CEO 2 as an opportunity to provide advice to the CEO, CEO 2 took them as an opportunity to 'bring them [the board members] on the journey' and 'do the pre-selling', and gain early support for the proposals he planned to make in the board meeting. This suggests that the process of board members providing advice on the key strategic issues for the CEO is not without its complications: The CEO may be wary of referring to these discussions as advice so as not to appear weak or indecisive. Furthermore, while not dismissing the advice of the board members, CEO 2 felt that the non-family board members were distant from the company's businesses, while the owners' accumulated experience of the businesses reflected the firm's past rather than its future. The non-executive directors' lack of in-depth knowledge of the business is an efficiency issue recognised by the general governance literature (e.g. Ford 1988), while the latter concern of CEO 2 can be associated with the strong mental models of family firm owners (Jensen 2003).

The data shows that the non-family board members' advisory role was intensive in advising on alternative renewal strategies in state III. The interaction took place both in and outside the boardroom between the individual board members and the CEO and other TMT members. The data also shows that there was interaction between the individual non-family board members and the owners outside the board meetings. While the owners' influence on the proposals of a family firm CEO can be significant (Sievinen et al. 2019), the data suggests that the non-family board members can play a role in supporting the CEO helping to ensure

that the decision-making is not narrowed down too early to too few and obvious alternatives. For example, while the CEO was preparing a proposal on the R&D site strategy between the UK and Finland, the non-family board members with extensive experience in research, product development and multi-site strategies played a key role in facilitating a thorough analysis prior to the plan being presented at the board meeting. Additionally, the data suggests that through their experience from other firms, the non-family board members supported the TMT in evaluating the costs and benefits of the alternatives. By enacting these tasks, the non-family board members helped to ensure a thorough analysis of alternatives yet facilitated arriving at conclusions in a timely manner in spite of the high uncertainty surrounding the alternative options. We also recognise that the non-family board members had been appointed to provide specific knowledge and hence were predisposed to actively provide advice. We suggest that this helps to ensure that the non-family board members' skills complement the CEO and other TMT members' competencies, and we suggest that this legitimises the non-family board member's role in informal interaction between the other board members, the CEO and other TMT members outside board meetings.

During the board meeting in December 2016, the new CEO was ready to present his proposal for the new strategy. The lack of synergy between the two businesses was a fact, he explained. The components business was a high-volume, low-margin business with increasing price pressures. The company had no real competitive differentiator in this business, and investments to secure a full-scale portfolio were not supported by the margins that the business generated. Consequently, the components business was preventing the company from focusing fully on the lighting control business, where intelligent solutions promised future growth. The proposal was that the company should define itself as a lighting intelligence business, while the component business would play an important role as a cashflow generator. The decision to refocus called for immediate decisions about the site strategy. Although the headquarters were in Finland, most operations related to the new strategic core resided in the UK. After intensive discussions, a decision was reached. While it had initially looked obvious to some that the company would need to focus on one site only, the final decision acknowledged the importance of both sites but with more clearly defined roles. In this way, the company could tap into the software resources available in Finland while retaining the core of the lighting control development knowledge in the UK. The decision on the new direction meant radical changes to both businesses and would call for a significant reshuffling of resources.

Throughout the decision-making, an owner, who was the vice chair of the board, wanted to make sure that the non-family board members felt comfortable about expressing their true opinions. Owners expressing their strong opinions on matters early on may put a damper on debate, he felt.

> *I am trying to learn that when it is about the owners' directions, I talk late enough […] But yes, as an owner you need to be careful that you do not kill the discussion prematurely. Because it very easily happens that when the CEO proposes something and the chair seems to have* [the same] *opinion… and if*

> *then the owner agrees, it is very difficult for the* [non-family board members] *to be critical or consider alternatives.* (Owner, vice chair of the board)

An exception to not talking first was made, however, when it was estimated that up to a quarter of the workforce would have to be made redundant. At this point, the owners expressed their support for the CEO's proposal early in the board meeting so as to show that the owners were prepared for radical changes in order to ensure the sustainability of the firm. However, they requested that all redundancies were to be made in a respectful manner. Finally, after weeks of extensive preparations and then thorough discussions in the board meeting, the board approved the plan proposed by the CEO without hesitation.

In early spring 2017 the board felt satisfied. Only a few months previously, there had been a profound concern that the company lacked a strategic direction. Now the board members felt that the uncertainty had been replaced by a clear vision and an action plan. After an intensive period of evaluating the alternatives, the company was in the execution phase, state IV, characterised by early excitement and then assessment of the first observable results.

However, just when everything was looking good, unexpected news came. The new CEO had accepted an attractive offer to become the CEO of a large, high prestige company in his home country. After the initial shock, the board had no other alternative other than to focus on keeping up the momentum of change; the resignation of the CEO would not be allowed to jeopardise the effectively progressing renewal.

Again, a new CEO ('CEO 3') was found through the network of the chair of the board. Now the board members felt that as the company had a clear strategy and the restructuring was done, a new CEO with strong credentials in sales and people management could focus on the execution and development of a high-performing top management team to ensure that the renewal process would be successfully completed. As Huff et al. (1992) observed, a significant transformation takes time and many of its details remain to be worked out even after the renewal is announced. The non-family board members were ready to support the new CEO with this. The data suggests that CEO 3 perceived the dyadic interaction between him and the board members more as an opportunity to tap into the expertise of the non-family board members and was more active in initiating such discussions with individual board members than CEO 2.

> [As I started, I wanted to know] *if they* [the non-family board members] *are available for sparring, like for example* [a non-family board member] *who is very experienced in marketing and sales,* [another non-family board member] *who has a very different viewpoint as a CEO of a start-up and* [another non-family board member] *who* [is experienced] *in R&D. (CEO 3)*

> [Soon after having started] *I had ideas with regard the road mapping process and tested them with* [two non-family board members] *and it worked well, both of them had something to offer, so that was good. (CEO 3)*

We argue that this could be attributed to two factors. As there was no change in the composition of the board between the CEO appointments, and CEO 2 and CEO 3's backgrounds were not vastly different, this could reflect the differences between the preferences and working styles of the two CEOs. On the other hand, CEO 3 joined the firm after the new strategy had been announced in state IV. This suggests that a CEO may consider inertia-inducing advice, advice that relates to the current strategy, to be less intimidating than stress-inducing advice that would challenge the current strategy.

At this stage, the board felt that the management could also benefit from mentoring, which we define as investing the resources and time of more experienced people to improve another person's technical competence and/or understanding of objectives, circumstances and values, for example (adapted from Hendry 2002). The direct hierarchy between the CEO and the individual board members who represent the board that evaluates the CEO's performance and which have the authority to dismiss him or her does not necessarily provide fertile ground for a mentoring-type relationship. In acknowledging these challenges and wanting to support CEO 3, the board took a decision to suggest an external coach for CEO 3 at the early stage of his tenure. While this can be interpreted from the evolutionary perspective on the CEO-board relationship which emphasises the importance of focusing on CEO leadership development in early phases of the CEO's tenure (Shen 2003), the ongoing renewal process also played a role. As the benefits of the new direction are often not immediately observable in state IV (Huff et al. 1992), and despite the fact that the organisation yearned for convincing and visible promoters of the new strategy (Bibeault 1982), there was a high degree of pressure on the CEO. While the owners could effectively help an outside CEO to build commitment to a new strategy in the family firm's strategic renewal (Sievinen et al. 2019), dealing with high pressure also may require external support.

Our data also provides evidence of non-family board members acting as mentors for a TMT member. This task was enacted at the individual level and activated when CEO 2 announced his resignation.

> *I agreed with* [CEO 2] *that outside the boardroom I act as a mentor for* [the head of digital and research]. *It worked quite well. But it is more one-to-one mentoring than board work*. (A non-family board member]

We associate this with the need to encourage behaviour which may be necessary to develop the new skills needed to renew the firm (Barr et al. 1992). However, a non-family board member acknowledged the challenges related to the mentoring relationship. There were topics that he was familiar with but could not bring up in the discussions with a TMT member. In addition, he was sensitive about not wanting to interfere in the relationship between the TMT member and CEO 2, who was still engaged with the company although he was leaving. Similar to the board's task of supporting the CEO in talent acquisition, we consider the board mentoring of TMT members to be a task that extends beyond the customary tasks of the board and which is activated by the context of the renewal (as new knowledge was needed) and the case-specific circumstance of the CEO's resignation leading to a leadership gap.

	State I: Incremental adaptation within the framework of current strategy ➡	**State II: Deciding whether to consider a significant change in strategy** ➡	**State III: Envisioning renewal alternatives** ➡	**State IV: Honeymoon and trial**
Influence	Source of inertia	Source of stress	Source of stress	Source of inertia
Intensity of the advisory role	Low	Medium	High	Medium
Content	Advice within the boundaries of current strategy	Advising on best practices and standards for professional processes when assessing the need for change, defining the necessary resources and access to them	Advising on encountering the external environment, advice on alternative renewal strategies	Acting as mentor
Locus	Inside the boardroom	Largely inside the boardroom but resource-related advice outside the boardroom	Both inside and outside the boardroom	Outside the boardroom
Examples of non-family board members' advisory tasks towards CEO/TMT members	Monitoring the execution of current strategy against the set goals, advice on how to execute the current strategy in a more effective way	Assessing the quality of strategy creation and goal-setting processes, introducing best practices used in other companies, providing insights into the external environment, providing access to relevant networks	Supporting strategy analysis through experiences from other firms, ensuring that an adequate number of alternatives are assessed, providing knowledge on new technologies and markets	Supporting the CEO in the area of their own expertise and based on their own general management experience in implementing change

Definitions of states I-IV based on Huff, Huff and Thomas (1992)

Fig. 2 Non-family board members' advisory role in the strategic renewal of a family firm. Definitions of states I–IV based on Huff et al. (1992)

5 Key findings

We believe that our findings have implications both for research and practice as we focus on how the board's advisory role can evolve over time. We conceptualise

the contextual nature of the non-family board members' advisory role by depicting our findings within the framework of Huff et al. (1992). With the help of this framework we show that in our case the non-family board members' advisory role can evolve as the organisation moves from state I, status quo, to state IV (of the framework) where the new strategic direction is adopted, and the status quo is again established (Fig. 2). We identify several advisory tasks that the non-family board members can carry out inside and outside the boardroom to create value through their knowledge and provide access to resources. Our case shows that these advisory tasks can evolve as the renewal proceeds, reflecting the stage of the renewal process and resource configuration of the firm.

5.1 The collaborative nature of the advisory role

With our focus on the strategic renewal of a family firm, we build on the extant knowledge on the contextual nature of board roles (e.g. Carpenter and Westphal 2001; Huse 1998, 2005; Huse and Zattoni 2008; Krause et al. 2013; Lynall et al. 2003; Machold and Farquhar 2013; Minichilli and Hansen 2007; Pye and Pettigrew 2005) as well as on the case-based literature on family firm renewals (e.g. Bégin et al. 2010; Canterino et al. 2013; Cater and Schwab 2008; Salvato et al. 2010; Sievinen et al. 2019). While the literature on family firm renewals recognises the role of non-family CEOs in executing disruptive managerial actions (Canterino et al. 2013; Salvato et al. 2010), we show that non-family board members can play an important role in supporting the CEO as well as the owners in bringing about the change. We argue that this can be especially so when the firm is facing a need to rejuvenate its strategies because of radical changes in the environment, and there is pressure to complement firm-specific knowledge (Kets de Vries 1993) with complementary experience and skills (Bammens et al. 2011; Gabrielsson and Huse 2005; Jones et al. 2008). We propose that effective collaboration between the management, the owners and the non-family board members facilitates the non-family board members to enact their advisory role and helps to build the firm's capacity to respond to external demands. While several scholars have highlighted the importance of the chair in terms of board performance (e.g. Huse 2007; Gabrielsson et al. 2007), we argue that in the context of a family firm's strategic renewal, the chair can play a key role not only in ensuring that the board makes the decisions needed to push the firm from one renewal stage to the next, but also in enabling successful collaboration between the owners, the non-family board members and the TMT through effective board processes.

The owners can support the chair in this role. In our case company, the owners appointed non-family board members based on their competencies, had them outnumber the owners on the board, and appointed a non-family board member as a chair of the board. A 'revolving door of expertise' (Krause et al. 2013) was kept moving by the owners' practice of limiting each non-family board members' tenure to 4 years. Through these practices the owners signalled that they wanted a radical change and ensured that the firm had an objective and knowledgeable board that was not expected merely to ratify management decisions or bend to the owner's will.

5.2 Content and influence of the advisory role and tasks

We suggest that the non-family board members' advisory role in a strategic renewal can be both inertia- and stress-inducing, depending on whether the advice given is within the boundaries of the selected strategy or whether it aims to extend its boundaries. By doing this, we build on the findings of Sievinen et al. (2019), who studied the family firm owners' role in the same context. Within the framework by Huff et al. (1992) we show that at state I of the framework the non-family board members can contribute to preserving inertia. In such a situation, the non-family board members' advice remains within the boundaries of the current strategy and the advisory role can be expected to be primarily enacted inside the boardroom. However, our data suggests that once the owners trigger the change by making their goals known and appointing a new chair, the intensity of the non-family board members' advisory role can grow. In the case studied here, the non-family board members took up stress-inducing advisory tasks that supported renewal as the firm entered state II of the framework. To facilitate the focus on changes in the environment (Barr et al. 1992), the non-family board members made efforts through the strategy process to refocus the management's attention beyond the current strategy and ways of working. More professional processes were introduced to analyse the business and the industry and there was support for identifying and facilitating access to the necessary resources.

As many scholars (see e.g. Daily and Dalton 1995; Grinyer et al. 1988; Huff et al. 1992; Stopford and Baden-Fuller 1990) have observed, the introduction of renewal often requires a major reorientation that can call for changes in senior management. In line with this, resourcing played a key role in state II of the framework in our case. As the board, and the chair in particular, were not only active in CEO appointments and enacting their controlling role to hire (and fire) the CEO (see for example Johnson et al. 1996) but also in other TMT searches, we propose that the board can also take responsibility for supporting the wider group of key recruitments by actively evaluating the key competencies needed in the firm and supporting their acquisition. While all board members can provide support for resource acquisition, we propose that the chair of the board can be particularly well positioned to do this for two reasons. First, in the CEO appointments the chair plays a more critical role than the other board members, given his or her leadership function on the board. Second, in other TMT appointments the chair's more direct channel to and frequent communications with the CEO enables the chair to advise the CEO effectively on the appointments.

We also observe that state II provided evidence of the role interrelation (Åberg et al. 2019) as the initial strategy review revealed the competence gap and hence prepared the board to enact its control role and consider changing the CEO. The two roles were interwoven, yet the actions that they triggered were executed sequentially. In this way carrying out advisory role related tasks can provide the board members with necessary information to also enact their control role. This, we argue, is important when a firm is attempting a strategic renewal that by its very essence is a high-risk endeavour and calls for diligent monitoring by the board.

The data suggests that the outside advisors' stress-inducing advisory role reached its peak in state III of the framework while the firm was envisioning renewal alternatives. We interpret this to indicate that at this point the non-family board members played a key role in ensuring that strong mental models (Barr et al. 1992; Hall 1984) and satisficing behaviour (Cyert and March 1963; Simon 1947) of those who have a higher vested interest in the current strategy by being closer to business either operationally (management) or through their long tenure with the firm (family firm owners) did not lead to overlooking changes in the environment or prematurely narrowing down the alternatives evaluated. The data shows that each non-family board member effectively focused on their areas of expertise and expected the other non-family board members to do the same both inside and outside the boardroom. When the new direction was announced and the implementation started in state IV of the framework, the board members' focus shifted from inducing stress to creating commitment for the new strategic direction. In this way, the inertia that had previously delayed the necessary change became an important tool in ensuring the successful execution of the new strategy.

5.3 Intensity of the advisory role

Our data also suggests that the intensity of the board's advisory role can evolve over time. The intensity of the non-family board members' advisory role was moderate in states I and IV of the framework and active in states II and III. While a single-case study and our methodology does now allow us to propose that one would observe similar dynamics in all family firms attempting a strategic renewal, we argue that the finding on the changes in the intensity of enacting the advisory role and its influence on the progress of the renewal opens up interesting new research avenues. For example, it calls for studies on the contextuality of the board role within the life cycle of a firm (e.g. scale-up or renewal), not only between life cycles. Changes in the intensity of the board's advisory role within a renewal state can also be viewed as a temporal separation that serves as a means of reconciliation between the advice and control roles. For example, when the board was contemplating changing the CEO in our case, the intensity of the boards' advisory role appeared to decrease until the new CEO was hired. We suspect that this temporal separation was necessary more for psychological than legal (Zahra and Pearce 1989) reasons. However, more research on the underlying reasons for the temporal and spatial separation of both advice and control roles is needed.

5.4 The locus of enacting the advisory role

The extant literature acknowledges that board tasks are carried out not only inside the boardroom but also outside it (e.g. Huse 1998, 2005, 2007; Huse and Zattoni 2008). We contribute to this by showing at the micro-level how the locus of the advisory activities is dependent on the stage of the renewal and the content of the advisory task. In our case, advisory tasks such as advising on the external environment or renewal strategies were carried out both inside and outside the

boardroom. On the other hand, tasks such as supporting the CEO in TMT recruitment or mentoring TMT members when the CEO resigned, took place almost exclusively outside the boardroom in a dyadic interaction between a non-family board member and TMT member. The case also provides evidence that some advisory tasks can be carried out outside the boardroom by an individual non-family board member but towards a group of TMT members such as a non-family board member inviting several executives to visit their own company premises. Hence, we build on the findings of Machold and Farquhar (2013) that recognise the temporal separation of the board tasks by proposing that the different tasks of the advisory role can also be spatially separated. Dyadic relations outside the boardroom that play a key role in this spatial separation have important implications both for research and practice. From the theory-building perspective, it calls for more scholars to extend the scope by studying the advisory role beyond the boardroom. To capture what really happens in one-to-one interactions, direct observations may be required. From the practitioners' perspective we note that the dyadic working mode can set different demands for the individual board member's interpersonal skills than working as a coalition inside the boardroom.

6 Conclusions and future research directions

In our article we provide a fresh perspective on the non-family board members' advisory role in the context of a strategic renewal process. We argue that the advisory role of non-family board members evolves from inertia preservation to inducing stress. We show that the role, content, intensity, and locus of advice can change as the renewal proceeds, reflecting the stage of the renewal process and resource configuration of the firm. While traditional governance theories offer a normative view on what the board members should do, we show what board members do and how their tasks change. We also offer insights into how in this case the family firm owners and the chair of the board supported the non-family board members in their advisory role.

Role and task development continue to be a relatively rare perspective in the literature on boards regardless of the ownership structure of firms. There are few studies on the topic (Bammens et al. 2008; Ikäheimonen et al. 2013; Lynall et al. 2003; Machold and Farquhar 2013), but there is a requirement for more (e.g. Åberg et al. 2019; Goel et al. 2014). We see this as a highly interesting research topic, particularly when focusing on the spatial and temporal separation of different board roles and tasks. We should also ask what kind of role spatial separation may play in reconciling control and advisory roles, and how this can impact the governance processes. Additionally, the question of whether temporal and spatial separation of board roles and tasks could play a role in supporting the management and the board in its efforts to accomplish ambidexterity is an interesting area to examine. We believe that research focusing on these questions can offer important new insights into the board's efficiency and value creation potential in all firms, not only in family firms.

We have discussed the limitations related to our study in previous sections. Some of these limitations may provide interesting areas for future research. Our study was based in Finland and hence may have higher relevancy in governance settings sharing the features discussed by Sinani et al. (2008). Cultural contexts that differ significantly with regard to these aspects can offer additional insights into the dynamics between the non-family board members, TMT and the owners. We also recommend that both the intensity and content of the different advisory tasks should be studied further through research designs based on naturally occurring data. To capture the interaction outside the boardroom, we propose that direct observations including participant observation and action research should be considered.

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Publication III

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The role of dyadic interactions between CEOs, chairs and owners in family firm governance

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The role of dyadic interactions between CEOs, chairs and owners in family firm governance

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Abstract
The objective of this case-based study is to understand how the dyadic interaction between the key governance actors can influence the decision-making aimed at directing and controlling a family firm. The study provides evidence that dyadic interaction at the back stage of the formal governance process can offer a privileged position for the family firm owners who serve on the board, and the non-family member Chair of the Board, to influence decision-making before, after and between board meetings. The cases studied suggest that dyadic interactions can serve as preparation for formal board processes and complement and clarify them, yet they also have the potential to conflict with them. Dyadic interaction is also shown to offer important relational and emotional benefits that may not necessarily be achieved through larger group interaction. The findings suggest that although the actors can self-regulate their behaviour through informal rules, the rules may imperfectly address one risk of dyadic interaction—the reduced cognitive conflict among the board.

Keywords Corporate governance · Board of directors · Decision-making · Dyadic interaction · Family firm

1 Introduction

Literature and research have long emphasised formal governance mechanisms as means to direct and control firms. They largely originate from the legal systems in which firms operate (Chrisman et al. 2018). However, informal governance processes that exist alongside formal ones—reflecting the interests of the stakeholders, along with pressures for conformance and adaptation to the norms (Chrisman et al. 2018)—also play a role in a firm's decision-making (Astrachan 2010; Chrisman et al. 2018; Huse 2005). The heterogeneity of governance models

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(Daspit et al. 2018) and the informality of processes (e.g., Astrachan 2010; Canterino et al. 2013; Cater and Schwab 2008; Chrisman et al. 2018; Gersick et al. 1997) are family firm characteristics that are well recognised by scholars. This suggests that informal processes may play a particularly important role in family firm governance.

Enacting board roles is not restricted to the boardroom (Bezemer et al. 2018; Gabrielsson and Huse 2002; Huse 1998, 2005, 2007; Huse and Zattoni 2008; McNulty and Pettigrew 1999; McNulty et al. 2011; Pettigrew and McNulty 1995). Recent studies on family or entrepreneurial firms have highlighted the role of dyadic (one-to-one) interactions between board members and the CEO and shown how these roles are enacted at the firm governance. Examples such as those given by Garg and Eisenhardt (2017) and Sievinen et al. (2019, 2020b) provide micro-level evidence that before the board makes decisions as a coalition, interactions between the individual board members and the CEO influencing the decision have taken place outside the boardroom. Such dyadic encounters between individuals have been conceptualised as fundamental units of interpersonal interactions (Kenny et al., 2006), and selected studies on corporate governance related meetings suggest that dyadic interaction has distinct dynamics compared to larger group interactions (e.g., Imam and Spence 2016; Johed and Catasús 2018; Solomon and Darby 2005; Solomon et al. 2013).

An extensive body of research highlights the importance of the CEO–chair relationship (e.g., Koskinen and Lämsä 2016, 2017; McNulty et al. 2011). Earlier studies on family firm governance have also suggested that, apart from the CEO and the chair, the owners serving on the board are powerful brokers in family firm governance and their relations to non-family executives and board members can play a significant role (e.g., Johannisson and Huse 2000; Sievinen et al. 2020a, b). However, despite these findings and the recognition of the importance of informal processes in family firms, the role of the dyadic relations in family firm governance has only been studied to a limited extent. We have little empirical evidence of dyadic interaction at the back-stage of the formal governance of family firms and few, if any, conceptualisations to help to understand the role of this phenomenon in family firm decision-making. We also have limited knowledge on why the key governance actors of family firms engage in dyadic interaction, how these interactions are conducted, and what implications they can have on the decision-making in family firms. We argue that a case-based approach utilising highly granular data on family firms could help explore the dynamics of these behaviours and to understand their potential influence on family firm governance.

In our study we focus on an informal process of family firm governance, the dyadic interaction of key governance actors of a family firm, the CEO, the chair and the owners, that takes place back-stage (see e.g. Graaf 2018; Johed and Catasús 2018; Solomon et al. 2013), in contrast to the front-stage group interaction of the formal board meetings. Figure 1 below illustrates the focal dyadic relationships of this study.

The research question of our study is *how do the dyadic interactions between the non-family CEO, the non-family chair and the owners who serve on the board (hereafter 'the owners') influence the decision-making aimed at directing and controlling*

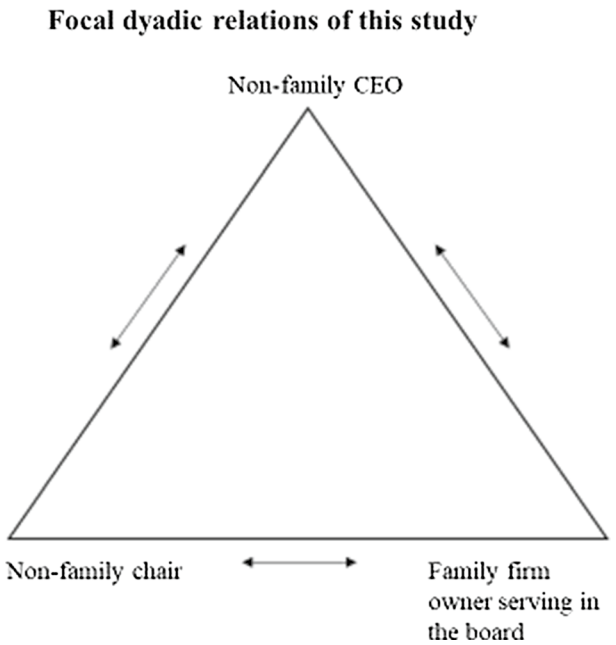

Fig. 1 Focal dyadic relations of this study

a family firm? Fig. 2 below illustrates the focus of this study and provides the key definitions adopted.

With our focus on the micro-level processes of two Finnish, later-generation (no longer managed or governed by the founder but by his or her descendants)

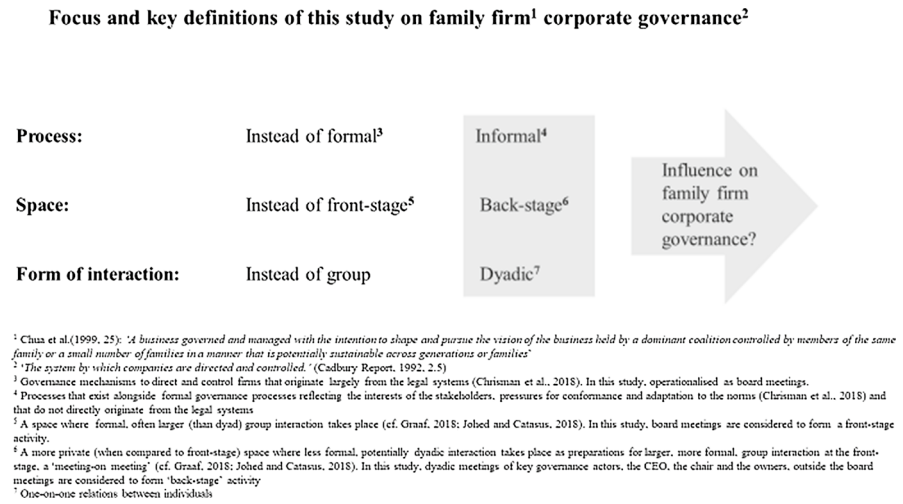

Fig. 2 Focus and key definitions of this study on family firm corporate governance

family firms where the family primarily participates in business through serving on the board, we intend to answer our research question. Both case companies are attempting a strategic renewal; hence they are experiencing intense board involvement.

While a case-based study has limitations in terms of generalisation, we believe that our deep access to granular data reveals behavioural patterns that provide important insights on family firm governance. First, our data provide micro-level evidence of how dyadic interaction at the back-stage can offer the chair and the owners a privileged position to influence the decision-making before, between and after front-stage board meetings. We build on the previous studies on informal governance processes (Astrachan 2010; Chrisman et al. 2018; McNulty and Pettigrew 1999; Mustakallio et al. 2002) and the role of dyadic interaction between the top management team ('TMT') and the board members (Gabrielsson and Huse 2002; Garg and Eisenhardt 2017; McNulty and Pettigrew 1999; Sievinen et al. 2019, 2020b; Westphal and Stern 2006; Westphal and Zajac 1995) by providing an important process component for understanding family firm governance. Based on our case studies, we show that dyadic interaction can serve many purposes, as it is used for preparing for the board meetings, along with complementing them and clarifying decisions made.

Second, we propose that dyadic interaction at the back-stage can influence the board decision-making. To avoid negative influence at the back-stage dyadic interaction (namely, breaking the rules considered to define 'good governance'), the actors are shown to self-regulate their back-stage behaviour through informal rules. Dyadic interaction can have a positive influence through reducing information asymmetry between the actors and through offering a setting for back-stage interaction that is free from the pressures experienced in the boardroom. However, our study also reveals a new potential source of reduced cognitive conflict which is a recognised factor for decision-making inefficiencies (Barroso-Castro et al. 2017; Finkelstein and Mooney 2003; Forbes and Milliken 1999): dyadic interaction can align the views of a subset of the board or reduce the number of options presented before it as a coalition has the opportunity to discuss issues and make decisions. As a result, the CEO's proposals to the board and the latter's decisions can remain within 'Overton's window' (i.e., within what the owners or the chair consider acceptable options). The informal rules we observed in our case studies did not address this risk.

Third, our findings indicate that dyadic interactions may provide relational and emotional benefits that may not necessarily be achieved through larger group interactions. Our data suggests that it is not only important who participates in the dyadic interaction but also who does not. Dyadic interaction may offer key governance actors of a family firm a platform for playing multiple roles in a more versatile ways than a larger group interaction in a formal board meeting. Emotions and family-related or personal matters may be viewed as 'disruptions' that should principally be handled outside formal meetings. The results of our study therefore build on earlier findings about the back-stage interaction as a way to smooth out interaction at front-stage meetings (Graaf 2018; Johed and Catasús 2018). As such, these results provide new insights on the role of the dyadic relations of key family firm governance actors as 'meetings on meetings'.

2 Family firms, informal governance process, and governance-related meetings

Our study delineates three different directions on research, informal governance processes and board dyadic interaction, as well as on meetings related to corporate governance.

2.1 Informal governance processes in family firms

The *Cadbury Report* (1992: 2.5) define corporate governance as '*the system by which companies are directed and controlled*'. While the definition of the *Cadbury Report* provide guidance on the form of formal governance, it pays limited attention to methods that are not codified or enforced through formal laws (Chrisman et al. 2018). In the governance literature, informal processes have been studied through constructs such as trust and altruism (Cater and Schwab 2008; Karra et al. 2006; Steier 2001) and social networks (e.g., Mustakallio et al. 2002), including behaviours and constructs that facilitate informal dyadic or group interaction between the CEO and the board members (McNulty and Pettigrew 1999; Pettigrew and McNulty 1995). They have been proposed to be even more effective than the formal process in reaching similar ends (Astrachan 2010; Mustakallio et al. 2002), and to have the potential to either reinforce or counteract the formal governance process (Chrisman et al. 2018). Several scholars have also approached processes from the perspective of organisational and individual-level rules (March 1994, Mace 1971; March and Olsen 1989; Sievinen et al. 2020a; Ocasio 1993; Zhou 1993). While formal rules of governance include practices such as setting up board committees, informal rules can regulate how board members conduct political games inside and outside of the boardroom (Pettigrew and McNulty 1995). They can also limit how the board members interact with the CEO and each other (Gabrielsson and Huse 2002; Mace 1971).

Family firm governance can differ from the governance of non-family firms in many respects. Firm governance can be coupled with family governance that seeks to secure cohesion and a shared vision within the family (Mustakallio et al. 2002; Siebels and zu Knyphausen-Aufsess 2012). Typical family firm characteristics also influence governance, including a trans-generational mindset, family members playing multiple roles as managers and owners, and non-financial matters detracting the focus from economic goals (Mustakallio et al. 2002). As a result, informal mechanisms may play a different or a more important role in family firm governance than in other companies (Astrachan 2010; Cater and Schwab 2008; Sievinen et al. 2020a).

2.2 Dyadic interaction as a form of informal governance

A dyad is '*the fundamental unit of interpersonal interaction and interpersonal relations*' (Kenny et al. 2006, p. 1). However, dyadic interaction does not take place in a vacuum: it is embedded in larger constellation of dyadic relations (Sparrowe and Liden, 1997) and social networks (Liden et al. 2016). We recognise studies focused

on social networks as a form of informal governance as a distinctive research stream. While many of these studies also discuss concepts of trust, altruism, power and other family firm characteristics, their focus is on how the social context and the processes related to social interaction facilitate or moderate informal governance. Mustakallio et al. (2002) suggested that social control embedded in relationships plays a key role in family firm governance. Family institutions such as informal get-togethers and family councils facilitate social interaction, which—as Mustakallio et al. (2002) proposed—enables having a shared vision among the key stakeholders. Their study suggests that the strength of the shared vision among the family firm owners is positively associated with social interaction, and a shared vision is positively associated with strategic decisions' quality and with commitment. On the other hand, family members may also prefer informal discussions over formal board meetings; thus, a family firm may miss the benefits of a functional board (Bettinelli 2011; Gersick et al. 1997).

Following the findings about board members' influence outside the boardroom (Bezemer et al. 2018; Gabrielsson and Huse 2002; Huse 1998, 2005, 2007; Huse and Zattoni 2008; McNulty and Pettigrew 1999; McNulty et al. 2011; Pettigrew and McNulty 1995), studies on dyadic interaction between the board members and TMT form a sub-stream of research on informal governance based on social networks. In a family firm context, we have only identified a few studies that focus on this area at the micro level. Sievinen et al. (2020b) discussed the role of the owners in a family firm attempting a strategic renewal. They suggested that owners can exercise influence on the CEO and the chair outside the boardroom in order to ensure that strategic renewal is triggered and that the new strategic vision is aligned with the family vision. Sievinen et al. (2019) in turn proposed that non-family board members, including a non-family chair, can influence strategic decision-making through their advisory role, which is enacted through dyadic interactions with TMT members.

Outside the domain of the family firm, we recognise several studies that focus on the role of dyadic interaction in firm governance. Stevenson and Radin (2009) have studied the influence of directors' relations outside the boardroom on board performance, and Westphal and Zajac (2013) have introduced what they call a *socially informed view* as an alternative to what they deem to be under-socialised governance theories. Many of these studies were conducted in the context of the dual role of CEO/chair (e.g., Westphal and Graebner 2010; Westphal and Stern 2006; Westphal and Zajac 1995, 1998).

We also recognise studies that have focused on the CEO–board relationship in an environment where the CEO/chair role is separated. While these studies have provided insights into the board's role vis-a-vis management (see e.g., Bankewitz 2016, 2018; Brunninge et al. 2007; Huse and Zattoni 2008), their focus has been on the influence of dyadic interaction on board efficiency. The studies have largely focused on chair–CEO interactions, where power and trust play important roles. Pettigrew and McNulty (1995), Roberts (2002), Roberts and Stiles (1999), Roberts et al. (2005) and McNulty et al. (2011) all recognised that the relationship between the chair and the CEO is important for board dynamics and that the chair nomenclature and origin both influence the power potential of the chair (McNulty et al. 2011). Pettigrew and McNulty (1995) discussed the factors that shape how the potential power

of a chair is converted into actual influence. Recent examples of research on dyadic interaction include studies by Koskinen and Lämsä (2016, 2017) that focused on the CEO–chair relationship and suggested that emergent, non-scheduled practices play a key role in building dyadic trust.

2.3 Corporate governance related meetings

Our study also delineates studies on meetings related to corporate governance. While these studies were conducted in the context of stock-exchange listed companies and focused on the interaction of executives and external parties (such as financial analysts, investors or auditors), they offer relevant insights for our field of study. They address both private and public meetings (Abraham and Bamber 2017), with the first stream including one-on-one investor-investee meetings, for example, and the latter featuring AGMs and analyst events related to the release of corporate earnings. A line of this literature has applied the key concepts of Erving Goffman (1959, 1961, 1974) including '*special self*' as *'a specific actor performing a specific performance at a particular encounter'* (Johed and Catasús 2018, p. 370) as well as impression management and concealment of attributes that are not part of the actors' idealised self.

For our line of research, studies on meetings in private settings that feature dyadic interactions are the most relevant ones. For example, Solomon and Darby (2005) and Solomon et al. (2013) have studied one-on-one meetings on ESG (environmental, social and governance) matters between the institutional investors' representatives and the operational managers of the investees. Solomon et al. (2013) show that this dyadic interaction follows unwritten rules whereby ESG issues are subordinated to financial matters. The meetings can be characterised more as relationship building than as triggers that actually alter investors' investment behaviour. Unlike Imam and Spence (2016), who show that sell-side analysts consider management to intentionally hide or delay information on poor performance, Solomon et al. (2013) suggest that buy-side analysts operate within a framework of the managers not managing the impressions to deceive investors intentionally. While having different theoretical approaches, both Solomon et al. (2013) and Solomon and Darby (2005) argue that one-on-one dialogue between these powerful parties can lead to the creation of a joint myth about the state of the affairs.

Another topic of study is the role of financial analysts in events related to public corporate governance, such as Q&A sessions in the context of earnings releases. Graaf's (2018) findings depict earnings announcements as a stage wherein analysts must ask certain questions and avoid others. Abraham and Bamber (2017) in turn conceptualise the company Q&A with the analysts as a stage for impression management where the analysts' self-promotion plays an important role. Johed and Catasús' (2018) study highlights the importance of the auditors' back-stage preparations with management prior to the AGM. The results suggest that these activities are considered by the auditors as necessary to avoid disruption in the AGM. The role of the private rehearsal at the back-stage prior to the interaction at the front-stage has also been highlighted by Solomon et al. (2013) and Roberts et al. (2006); however,

the multiple interpretations of the back-stage/front-stage dichotomy reflects its relative and contextual nature. Solomon et al. (2013) consider investor/investee views and behaviours in private meetings as front-stage and investors' actual investment decisions and investee's actual (rather than presented) actions outside of the meetings as back-stage. Johed and Catasús (2018) in turn refer to management–auditor meetings and related agreements prior to the AGM as back-stage activity and AGM as front-stage—perspective that align with those of Graaf (2018) who observes that *'team performances typically require preparation and coordination in the "back-stage" region, allowing the "frontstage" performance to run without disturbance*' (p. 1235). This conceptualisation of back-stage activity as 'meetings on meetings' is highly relevant for our research focus.

We conclude that research on informal governance and CEO–board relations in family firms have provided a more nuanced view on the corporate governance than that offered by normative governance theories alone. Also, formal corporate governance is increasingly recognised as being only the tip of the iceberg in relation to the full extent of corporate governance, including dyadic interaction in meetings related to corporate governance. However, the intersection of family firm governance, informal processes and dyadic interaction remains scarcely researched.

3 Methodology

3.1 Research approach

A qualitative research approach, which engages in context-specific inquiry and does not treat the governance processes as taking place in a 'black box' or as 'standard' offers (Ahrens and Khalifa 2013) provides an important alternative for quantitative methods. We chose to focus on two companies to ensure an in-depth approach that would help us reveal the micro-level behaviours of the key organisational actors. Our research design selection of two cases was not done to increase the generalisability of the study or to do a comparative study. Our goal was to enrich the data and ensure a variety of perspectives by selecting two companies that share the key contextual elements: they are both later generation family firms where the main owners participate though serving on the board and both firms are attempting a strategic renewal.

As the board can play a key role in strategic decision-making and the rejuvenation of firm strategies (Gopinath et al. 1994; Hass and Pryor 2005), the context of strategic renewal suggests active board involvement. Gaining access constitutes a major obstacle in governance studies (Leblanc and Schwartz 2007). Hence, while the companies were chosen through a purposive method, as both are later-generation family firms undergoing strategic renewal processes, the access that the owners were willing to grant us played a key role in the selection of the firms. Also, as one of the writers of this article holds a board seat as a non-family member in one of the case companies, there was immediate trust that supported the data collection in this company. To ensure the impartial perspective necessary for informed theorising, all

of the data collected, along with its analysis and the interpretations suggested by this writer were carefully reviewed by the two other writers.

From the epistemological perspective, we adopt a largely interpretivist view. However, we make two concessions to this. First, while we considered the informants as knowledgeable agents who can describe their own experiences, motivations and emotions, we used data and source triangulation to certain extent to have a better understanding of some of the past events in the companies we studied. Second, we assume that our findings based on a limited number of case studies, are not fully idiosyncratic. While our study has important limitations related to the research method and contextual factors discussed in *3.5 Limitations*, we believe that one can generalise from a case study if it generates principles with obvious benefits to another domain (Gioia et al. 2013).

3.2 Data collection

We started the data collection in 2017 with the interviews in Case Company 1. Apart from the CEO, the chair and the owners, we also interviewed other governance actors, namely non-family board members (other than the chair). This process helped us to understand the larger context of the case companies' governance. We were given access to the company archives, which included board materials such as agendas, presentation materials and minutes. In addition, we collected publicly available data—such as company marketing materials, white papers, media coverage and industry reports—to gain an insight into the firm's background and its industry.

We continued the interviews in 2018 and 2019. To study the board members' interaction outside the boardroom in depth, we conducted more interviews with Case Company 1, as well as adding interviews with Case Company 2 to our data set. Similarly to Case Company 1, with Case Company 2 we also had access to the company archives and we utilised the publicly available information and company marketing materials as secondary data. We felt that the fact that we collected the data through several interviews over an extended period of time and interviewed many of the key actors several times helped us to create a trustful relationship with the interviewees.

All interviews took a semi-structured form and were scheduled to last from 60 to 90 min (see Table 1: 'List of interviews'). As we gained more understanding, we allowed the prior interviews to influence the subsequent ones, and some interviews had a more in-depth focus on selected topics. We designed our questions to focus on the behaviours and actions of the informants, but we also added questions to address their normative beliefs on interaction outside the boardroom.

3.3 Data analysis and theory articulation

To ensure the transparency and academic rigour of our approach, we chose to apply the Gioia method (Gioia et al. 2013; Nag and Gioia 2012), which provides a systematic approach to concept development. We used the primary and secondary data to build a plausible view of the events for each company. We then used a combination

Table 1 Interviews

Date	Interview
2.6.2017	An owner, member of the board case 1 (1)
29.6.2017	An owner, member of the board, case 1 (1)
18.7.2017	A non-family board member, case 1 (2)
24.8.2017	An owner, member of the board, case 1 (3)
31.8.2017	A non-family board member, case 1 (4)
4.9.2017	A non-family board member, chair of the board, case 1 (5)
20.9.2017	An ex-CEO, case 1 (6)
13.10.2017	A non-family board member, case 1 (7)
16.10.2017	CEO, case 1 (8)
27.8.2018	A non-family board member, chair of the board, case 2 (9)
28.8.2018	An owner, member of the board, case 2 (10)
29.8.2018	An owner, member of the board, case 2 (11)
1.10.2018	A non-family board member, chair of the board, case 1 (5)
19.10.2018	CEO, case 2 (12)
22.10.2018	Owner, member of the board, case 1 (1)
26.10.2018	CEO, case 1 (8)
18.9.2019	An owner, member of the board, case 2 (11)
23.10.2019	A non-family board member, case 2 (13)

of NVivo software and manual analysis to identify data-driven categories. These were based on our initial coding of individual interviews (which were named after a representative quote, to retain the voice of the informants from each company separately, along with common themes across the cases). This process created our first-level data structure.

At the next stage, our process revealed themes that related to the distinctive roles and behaviours of the owners, the CEOs and the chairs. With the help of the relevant literature, the emerging concepts relating to the roles, behaviours and the content of the interaction were grouped to form second-level themes. Assembling the second-level themes into aggregate dimensions and into a full data structure enabled us to reveal the relationships between the organisational actors, the content of the interaction and the rules regulating the interaction. As we worked in an iterative way, we gradually reached a stage where we felt that additional interviews and follow-up questions no longer provided additional information, or that its scope was beyond our research focus.

We used several approaches for getting feedback on our interpretations. The diverse backgrounds of the writers of this article, both in research and practice, stimulated alternative views. We also received member checking from the informants. As our interpretations of the data started to take form, we also had one-on-one and group discussions with seasoned executives and other practitioners to test our ideas.

3.4 Case descriptions

3.4.1 Case 1

3.4.1.1 Company history and renewal strategies Established in 1921, the key products of Company 1—lighting controls and luminaire components—generated sales of EUR 76 million in in 2017, of which over 97% came from European countries outside Finland and from Asia. The key sites are in Finland and the UK, supported by the global sales organisation.

While the first ten years of the twenty-first century were characterised by a successful turnaround of the component business, by 2014 the owners of Company 1 had started to grow concerned about the long-term sustainability of the firm. The company balance sheet remained strong, but sales had been declining for several years. Driven by the introduction of a new light source, LEDs (light-emitting diodes), the industry was undergoing radical changes, which impacted both the component and the control businesses of the firm. From 2014 onwards, the renewal strategies included the appointment of new non-family board members including a new chair, the appointment of two new, non-family CEOs, reducing costs and reallocating resources so that lighting controls were recognised as a key strategic growth business.

3.4.1.2 Company governance The same family has controlled the company since its foundation, and in its fourth generation, the shares are held by six cousins. At the time of the data collection, no family members were involved in its daily management, but one of the owners headed the company in the 1990s. During the period of our focus, 2014–2018, the board was composed of six members: two of the owning family members and four independent, non-family board members, one of whom served as a chair. The non-family board members represent diverse backgrounds and functional expertise in the global technology business. Table 2 at the end of this section lists the characteristics of the formal firm and family governance processes of both case companies.

3.4.2 Case 2

3.4.2.1 Company history and renewal strategies Founded in 1906 as a sawmill in the southern part of Finland, the company focuses on plywood, sawn timber, chipboard and other wood products. In 2017, it generated sales of EUR 270 million, and over 80% of its products were exported to other countries in Europe, to Asia and to the Middle East. The company operates production facilities in Finland, Russia and Poland.

By the middle of the first decade of the twenty-first century, the firm had successfully internationalised and diversified. However, the financial crisis triggered in 2008 had a severe effect on the indebted company. The equity ratio was low for a cyclical environment, and covenants restricted investments. Starting in 2014, the renewal strategies included the appointment of new, non-family board members—including a new chair and a new, non-family member CEO—along with reducing

Table 2 Formal firm and family governance processes of case companies

	Family governance	Firm governance							
	Family governance, including shareholders meetings	Number of board members	Non-family board members/family members in the board	Chair	CEO	Board meetings per year (average)	Board roles	Board committees	Family involvement in daily operations of firm
Case company 1	Annual shareholders' meeting and through the holding company board, through the Chairmen's Circle attended by the family holding companies' Chairs and the operational firms' Chairs, as well as annual seminar for the TMTs and boards of operational firms	6, all non-executive	4/2	Non-executive, non-family member, extensive accomplished tech executive with experience of leading business transformation, experienced non-executive director. A family member serves as a Vice Chair	Non-family member, first-time CEO, experience in the tech industry	6	Control and resource	None	None of the main owners is involved in daily operations. One of the main owners has served in an operational role in the past

Table 2 (continued)

	Family governance	Firm governance							
	Family governance, including shareholders meetings	Number of board members	Non-family board members/family members in the board	Chair	CEO	Board meetings per year (average)	Board roles	Board committees	Family involvement in daily operations of firm
Case company 2	Annual shareholders' meeting	5, all non-executive	3/2	Non-executive, non-family member, respected retired financial sector executive, experienced non-executive director. A family member serves as a Vice Chair	Non-family member, first-time CEO, experience in the wood industry	10	Control and resource	None	None of the 3 main owners is involved in the daily operations but have served in operational roles in the past

costs, the renegotiation of loans, the disposal of selected assets and investments into new growth opportunities.

3.4.2.2 Company governance The parent company of the group is 100% owned by the founders' three grandchildren and their children, while the minority of one of the subsidiaries is held by a more diverse group of the same (extended) family members. The board of the parent company consists of two representatives of the third-generation main owners, as well as three independent non-family board members with experience in the forest industry, the financial sector and international business. The owners serving in the board have in the past served as executives in the company. At the time of the data collection, one of the third-generation main owners' children served in an operational role in the firm.

3.5 Limitations

Our case study approach, with its limited number of cases and certain contextual factors, creates important limitations. While it enables studying the phenomenon of interest in detail, other methodologies would be needed to enable replication logic.

The Finnish governance system is based on civil law. The board is responsible for the overall management of the firm, as well as for oversight of internal controls and risk management, while the CEO performs the daily administration. In larger, professionally managed companies, the CEO and chair roles are typically separated and board members are not typically part of the management team. As observed by Sinani et al. (2008), the informal governance systems in Scandinavian countries (Denmark, Norway and Sweden) are characterised by trust, information diffusion and reputation mechanisms. We argue that Finland shares these characteristics. Both case companies also share important company-level contextual factors. The chairs and the CEOs are relatively newly appointed, which may affect their relations with each other and the owners. In addition, the main owners participate through governance in both companies, and the professionalisation of the firms has been well on its way for several years. Our findings may not be relevant in significantly different governance and company contexts. However, we believe that while our findings may not be applicable to all family firms, they can be relevant for later-generation family firms where family involvement is through board membership, the board is active and it includes non-family members.

4 Analysis and discussion

4.1 The dyadic back-stage interaction of the CEO and the chair of the board

In Case Company 1, the current CEO is experienced in the technology business, but the position is his first as a CEO. The chair feels that this makes the CEO more open to the chair's support as a sounding board than a more seasoned executive would be. The current CEO is indeed vocal in his appreciation of the access to the board

members' expertise outside of the boardroom. On the other hand, the data suggest that while the former CEO had also been in his first CEO position, he emphasised the risks that relate to a CEO 'asking for advice from the board' and considered informal back-stage interaction primarily as an opportunity to gain early support for a proposal prior to board meetings.

While unexpected events can necessitate continuous ad hoc communications, the interaction of the CEO and the chair in Case Company 1 is structured around pre-scheduled weekly discussions:

> We have scheduled to discuss for an hour or an hour and a half every Friday, longer if we meet face-to-face and shorter if we talk over the phone. But at minimum, we talk every week, and then, if you include communications such as WhatsApp and text messages, […] I think it is two or three times per week. (Chair of the Board, Case Company 1).

The content of these discussions is largely driven by the CEO, who maintains a list during the week on the topics he wants to take up in his weekly discussions with the chair. In these discussions, he reports on the execution of items compared against the targets decided on by the board, as well as his planned next steps. This information supplements the data available in the board meetings and board materials. The chair readily offers his support as a sounding board. At the same time, he receives timely information from the CEO on the firm's performance, which supports him in monitoring it. However, he emphasises the importance of not deviating from what he considers to be orderly corporate governance:

> We do not make any big decisions. [We talk about] operational matters, have sounding board–type discussions; and then, on the other hand, I get to know how things are progressing […]. (Chair of the Board, Case Company 1).

The chair also recognises his role in giving confidence to the CEO when making decisions that do not require board approval and executing actions that relate to the renewal process. The CEO, while emphasising that a CEO should not seek advice in the sense that he or she fears making decisions on his or her own, considers this type of support to be important:

> An example from this week is that we had to let someone go. Before this was done on Tuesday, on Monday the CEO told me how he was going to do it. It was more of a sparring discussion as the decision had already been made. (Chair of the Board, Case Company 1).

From the CEO's perspective, part of the interaction with the chair is also the feedback received following board meetings:

> I think it is important that the board can give the CEO feedback, and the Chair of the Board is the best positioned to provide it. […] When you are in a board meeting, you are fully immersed in it. (CEO, Case Company 1).

The CEO of Case Company 2 is also in his first CEO role. While preparing the agenda for the next board meeting is the primary purpose of the chair and the CEO's

bi-weekly discussions, they also go through the items that supplement the information provided to all board members. These include longer-term issues and the firm's performance related to the renewal process. According to the chair of Case Company 2, the key purpose of this interaction is for them to 'find the same wavelength' in regard to whether the topic is ready to be brought to the board for discussion and/or for making a decision. These back-stage discussions provide the CEO with information on how to position the matters to be decided and the questions to expect. On the other hand, similarly to Case Company 1, the chair of Case Company 2 also avoids trying to steer the firm matters that belong to the board's agenda forcefully in his dyadic interaction with the CEO.

Renegotiating financing and carrying out selected asset disposals has played a major role in Case Company 2′s renewal strategies. Hence, the CEO valued the chair's financial industry experience and contacts:

> During the time we renegotiated the financing of the company [we had more frequent communications], and that was because of my background. As the CEO had a similar background, we had lots in common; and then the other thing was that I was more active towards the financiers, together with the CEO, and sometimes I even helped him with the contacts I have. (Chair of the Board, Case Company 2).

Both firms have appointed experienced chairs whose key experience and contacts reflect the key uncertainty of each firm: the rapidly changing technologies in Case Company 1 and the dependence on external financiers in Case Company 2. The interaction between the CEO and the chair in our case companies ensures that the chair remains in touch with the progress of the renewal's execution and with business performance in general.

The CEOs interviewed also appreciate the chance to have a sounding board in discussions on matters that are more operational in nature and do not require a board resolution. They consider that one-to-one interaction ensures that the CEO can receive more support than in the board meetings, as he or she can focus on the areas that are within the chair's areas of expertise. These findings reflect the extant governance literature suggesting that boardroom challenges—such as digressions and cognitive switching between short- and long-term issues (Garg and Eisenhardt 2017) or status competition, which are inherent in any group (Bendersky and Hays 2012)—can be avoided in interactions outside the boardroom. Apart from her or his experience and access to external resources, the chairs in the case companies also control information on the board's view of the CEO's performance. The case company CEOs appreciate this information, which they consider helpful in improving their performance and in developing themselves as professionals.

Both the CEOs and the chairs of the case companies are conscious of the risks of interactions outside of the boardroom jeopardising what the informants consider 'good governance'; for example, making decisions that should be on the board agenda. From a processual perspective, we relate this to their being motivated to adopt organisational characteristics that enhance the legitimacy of governance, as evidenced by Westphal and Graebner (2010) and Westphal and Zajac (1998). The finding can also be interpreted as a part of the 'role play' of the governance actors,

i.e., emphasising the importance of ensuring that back stage behaviour is in line with the expectations of the front-stage social role (cf. Solomon et al. 2013), as a CEO or board member should not violate the rules of 'good governance'. However, as McNulty and Pettigrew (1999) proposed, the board members who engage in the interaction outside of the formal process can shape strategic choice, change and control effectively as individuals, outside the authority of the board as a coalition. In our case companies the CEOs use their dyadic discussions prior to the meeting to explain their proposal rationale in greater detail—not being bound by the time limitations of a board meeting. Hence, in our case companies the chair's insight and support are gained prior to the actual board meeting, while the chair can influence the CEO's proposals through advice and/or guidance.

The data also provides evidence that CEO-Chair dyadic relation can provide a ventilation possibility for the CEO after the board meeting. A board meeting can sometimes be a high-stress situation for the CEO. At times, the CEO can consider a board member's remark to be off-the-mark or inconsiderate. However, because of the power imbalance between the CEO and the board members, the CEO may not necessarily be able to openly express his or her feelings at that time. The data shows that a CEO can discuss his or her frustrations one-on-one with the chair, and in doing so, feel that the matter is 'done and dusted, [and one can] move on.' In such interactions, we understand the chair to temporarily assume a role of a trusted partner instead of representing the authority that the board as a coalition inherently holds over the CEO. If family members disagree about important company-related matters, the data shows that the CEO and the chair may also privately discuss the way forward. In such interactions, the CEO and the chair's positions as non-family members discussing without family members can play a key role finding an appropriate solution.

4.2 The dyadic back-stage interaction of the CEO and the owners

In Case Company 1, the initial purpose of the monthly interaction between the current CEO and one of the owners was to ensure that the change in leadership would not disrupt the renewal process that had been initiated. The interaction was felt to emphasise the owners' commitment to realising the change and making it visible to the new CEO. However, half a year after the new CEO had joined the firm, the owner requested less frequent meetings to avoid the dyadic interaction clashing with board meetings and to ensure that the matters discussed would not become too operational:

> Once the new CEO has joined, it is important that the chair is given space to work with him or her. […] Otherwise, when you have a non-family member as the chair, the CEO can start to think that they report to the owners, not to the chair. (Owner, Case Company 1).

After the induction period, the purpose of the dyadic meetings (which now take place every six or eight weeks) is for the CEO and the owner to discuss the long-term direction of the company. In these meetings, the owner shares his knowledge

of the firm and its heritage based on his long tenure with the firm both as an owner and as an ex-executive, and in return he receives the latest information on the firm's progress. Similarly to a chair recognising the risk that decisions may be made outside the boardroom when they interact one on one with the CEO, the owner is also sensitive about this matter when discussing issues with the CEO outside of the boardroom:

> [The new CEO] has never asked [in these meetings] for my approval for something, and that is not the purpose of [my session with him]. Instead, these meetings are more to ensure that I can transfer to him what I would call tacit knowledge. (Owner, Case Company 1).

The data show that the CEO of Case Company 1 values the owners' insight into people-related matters, as the owners know many of the firm's employees well. In addition, the CEO also appreciates the opportunity to gain information on the owners' opinions and family goals, although he feels that, formally, the owners' expectations should be communicated in board meetings, which aligns with the findings of Gabrielsson and Huse (2002):

> At the end of the day, it is the owners who own the firm and use the owners' voice, and hence it is much in my interest to have access [to the owners]. (CEO, Case Company 1).

One of the owners in Case Company 1 feels that his interaction with the CEO outside of the formal governance process at the back-stage influences the board meetings indirectly. He compares this role to a sovereign's duty to be consulted, to encourage and to warn, as defined by Walter Bagehot (1867), rather than the owners dictating the operational agenda or making decisions outside of the boardroom, at the back-stage. As the owner provides input anchored to his long-term vision to the CEO in one-on-one sessions, he believes that this gives the CEO the confidence to bring his proposals to the board meetings.

In Case Company 2, the interaction outside of the board meeting between the CEO and the owners who serve on the board is not pre-scheduled. It is driven on the basis of need, such as when the CEO seeks their advice or when the owners feel that they require further information on the firm's performance—that is, information supplemental to what is available to all board members.

Also in Case Company 2, the owners who in the past have served in managerial roles in the company can provide the knowledge of long-term employees for a new CEO who is not a family member. In return, the owners appreciate the information that the CEO can provide on the firm's short-term performance:

> I have an office [at the headquarters], so I go there even though I do not have an operational role […], just some projects. So, I visit the [headquarters] a few times every week, and when I go there, I always talk with the CEO, who has his office on the same floor. (Owner, Case Company 2).

However, one of the owners recognises his wish to share more of the firm's history with the non-family member CEO:

> In our firm's history, there have been different times, good and bad […], and I think one needs to know and acknowledge this history. [These are the stories] I would like to tell [the CEO]. (Owner, Case Company 2).

While appreciating the interaction with the CEO outside of the boardroom, the owner is sensitive about ensuring that the chair is included in the communications:

> I do not want to bypass the Chair of the Board […]. If I am in touch with the CEO, I ensure that the chair knows about it. (Owner, Case Company 2).

However, the data also suggest that this principle is not always followed consistently if an owner feels strongly about a topic that the owners consider belongs to the 'owners' domain'—most importantly, the treatment of long-term employees when a firm needs to make lay-offs. In these cases, the owners of case companies can guide the CEO directly in regard to the desired principles.

Unlike the non-family CEO and the chair, who typically are considered to enact only professional roles within the organisation, family firm owners are often perceived as having many roles in a family business context. These include being a family member and owner, as well as a board member and an (ex-)executive (Sievinen et al. 2020a). Our data indicates that an owner may engage in lively internal dialogue as he or she assesses the role and its appropriateness in a family business context. Our data show the owners' sensitivity to multiple roles when interacting with the CEO:

> I have become very sensitive about it [in the dialogue outside the board meetings] […] so nowadays I always say [to the CEO] that 'Now, I say this as a family member', 'I say this as an owner' and 'I say this as a member of the board of directors'. (Owner, Case Company 2).

The data indicates that owners can postpone expressing their views in the boardroom until later to ensure that non-family board members feel that they can express their views freely. Interaction with the CEO outside the boardroom can offer them an opportunity to share their intimate knowledge of the firm and the owners' expectations in an informal way and ensure that there are no misconceptions.

4.3 The dyadic back-stage interaction between the chair of the board and the owners

In Case Company 1, the chair and one of the owners have a discussion every few weeks and meet face-to-face every month. However, events such as hiring or firing a CEO can increase this frequency. While the chair can call the owners to meetings between these to inform them of an important issue that has emerged, ad hoc contact is rare. One of the owners acts as a key contact with the chair.

Discussions with this owner are focused on strategy and personnel changes, the progress of the renewal towards the agreed vision, market changes and questions that relate to the structure and location of the operations. Both from the chair's and the owner's perspective, the primary purpose of these discussions is to provide additional transparency for the company:

> the purpose is […] that the owners know what's going on, and that there are no big surprises coming up, in the board meetings or otherwise. (Chair of the Board, Case Company 1).
> we ensure that […] we [the owners] know the status of the business prior to the board meetings. (Owner, Case Company 1).

Similarly to Case Company 1, one of the owners on the board in Case Company 2 has assumed a spokesperson role towards the chair. When the chair seeks the owners' guidance, he typically starts with this spokesperson and only after that extends the discussion to the other owners. The chair varies the frequency of his communications with each of the owners in line with their expertise and personality. For one of the owners, the chair has become a trusted person in regard to people and family ownership–related matters in general. The chair talks more about renewal-related business matters with the other owner, who is familiar with the plywood business.

In both companies the chair—thanks to his frequent contact with the CEO—can pass on the owners' information about the firm's performance, while the owners share their expectations and goals for the firms with the chair. The owners feel they can benefit from the back-stage discussions with the chair outside of the time constraints of board meetings. They consider that these discussions provide the owners with an opportunity to provide the chair with detailed information on the family's expectations and goals, as well as to share their thoughts on the new strategic directions. None of the informants considered the dyadic interaction as a key forum for communicating the owners' requirements. However, the data suggest that the appointment of a new CEO in our case companies forms an important case wherein the discussions between the chair and the owners at the back-stage are important, even though it remains the task of a chair to facilitate a board decision regarding a new CEO so that both owners and non-family board members are aligned.

The data also suggests that dyadic interaction between the chair and the owners can serve as a forum for the owners to reveal personal and nuclear-family related matters—such as family relations or the involvement of next generation into the business—that may influence their views on family firm related decisions. We understand that these topics may be excluded from discussion in the board meeting for two reasons. First, in the board meetings the owners (like any other board members) must attend to the interests of the company and all shareholders. Therefore, owners may restrict their disclosure of personal interests when acting as a board member. Second, owners may prefer not to discuss what they consider private matters in formal board meetings attended by a larger group of people.

5 Concluding discussion

1. Our results suggest that the CEO, the chair and the owners can spend significant time on dyadic back-stage interaction as a part of firm governance. It can offer the chair and the owners a privileged position from which they can influence decision-making before, after and between board meetings. The dyadic interaction can serve many process-oriented purposes. Our data reveal that it is used for preparing for

the board meetings, complementing and clarifying board decisions as well as for communicating and creating organisational commitment to family expectations and goals.

5.1 Preparing for board meetings

Preparing for board meetings can take a significant amount of time in CEO–chair dyadic interaction (see Table 3 below). This interaction can affect board meetings in terms of their agendas and presentations. While the data do not suggest that the chairs 'censor' the CEO's board presentations, the chairs can have an indirect influence through discussions that aim to get the chair onto the same 'wavelength' as the CEO when preparing for a board meeting. Our data show that owners also have an influence on the board's agenda and the CEO's proposals. The data suggest that the owners can offer the chair views on the items they wish to see on the board agenda. Also, while the owners' dyadic interaction with the CEO can be less intense than with the chair (see Table 3 for intensity of the governance actors involvement), the data show that the owners can assume a Bagehotian role to give the CEO confidence prior to her or his board presentations. This finding supports the evidence of McNulty and Pettigrew (1999) on the individual board members' roles in 'advising caution' or 'offering encouragement' to the CEO prior to proposals being brought to a board meeting.

The cases reveal that owners' dyadic interaction with the CEO and the chair can also serve the particular circumstances of family firms, including communicating and creating organisational commitment to family expectations and goals. Kotlar and De Massis (2013) suggested that family goals become more prominent when the family members extend their influence within the organisation through social interactions. While this dynamic can be viewed as providing a control tool for the owners (as it can curb the CEO's power), in our case companies this behaviour showed also potential to create information asymmetry between the other board members and the CEO.

Our findings on the CEO-chair-owner interaction prior the board meetings could also be interpreted as 'directive dominance' enacted by the chair and the owners at the back-stage to structure the front- stage performance by guiding how the roles at the board meeting are enacted (Goffman 1959; Graaf 2018). Hence, we suggest that back-stage discussions could influence not only the content but also the conduct of front-stage discussions.

5.2 Clarifying board resolutions

While the board as a coalition can control the interpretation of its decisions through monitoring their execution, as well as through written minutes of the meeting, our data suggest that the chair and the owners can also have an influence outside of the boardroom on the way the board's decisions are put into practice. After the board meeting, the data show that the chair can help the CEO to clarify how the board's decisions should be interpreted and executed. In our case companies, the owners

Table 3 Firm governance: intensity of actors' involvement

Governance process	To prepare for the board	A board meeting	To clarify the outcome of the board meeting	To complement the board meeting
Type of process, interaction and space	Informal, dyadic, back-stage	Formal, group, front-stage	Informal, dyadic, back-stage	Informal, dyadic, back-stage
Action	Agenda creation and proposals for the board	Board decision-making	Interpretation of board resolutions, feedback for the CEO	Other information exchange outside of the board meeting
Board as a coalition or formal subsets (committees)	–	Large	–	–
Chair–CEO dyadic interaction	Large	–	Average	Large
CEO–owner dyadic interaction	Average	–	Small/none	Average
Chair–owner dyadic interaction	Average	–	Small/none	Average

Small/average/large/none refer to the informants' assessment and narrative of the amount of the time spent on each interaction

shy away from attempting to influence operational matters through the CEO after the formal decision-making. However, in matters that the owners consider highly important (in our data, how the employees are treated in a redundancy situation or concerning renewal options), the data show that the owners engage in dyadic interaction with the CEO before or after the board decision. The data suggest that this back-stage behaviour can also relate to the owners' desire to ensure organisational adherence to family expectations and goals.

5.3 Complementing board meetings

The tasks of preparing for board meetings and clarifying board resolutions are tied to the schedule of formal governance processes. However, our data reveal that the dyadic back-stage interaction can also be supplementary to the board meetings and take place independently from the board schedule. In our case companies, it includes discussions between the CEO, the chair and the owners on matters that are not considered as belonging to the board agenda, but in which the chair and the owners have relevant experience. In our cases, both chairs are experienced and are therefore able to act as sounding boards for the CEO. The owners, thanks to their long tenure with the firm, can share their experiences on the family firm's ways of working and expectations in that regard. This behaviour emerges strongly in our data, and it may be attributable to both the case companies' CEOs and chairs having started their tenures relatively recently. Hence, the finding can suggest the importance of dyadic interaction between key governance actors as a channel for owners to contribute to the success of a new CEO through their knowledge of the family firm.

Our data suggest that decision-making can be viewed as a multi-step process wherein informal and formal processes intertwine and board members are involved to varying degrees, both in back-stage and front-stage interactions. The formal board meeting is a front-stage arena where the board has the legal authority to make decisions and where the directors carry out their legal duties (Bezemer et al. 2018). However, actual decision-making is the final stage of a long process (Johed and Catasús 2018; Pettigrew 1990; McNulty and Pettigrew 1999). McNulty and Pettigrew (1999) suggested that board members can influence a firm's strategy by shaping its content, as well as the processes used to formulate it, through informal dialogue outside of the boardroom. Similarly, owners who serve on the board (Sievinen et al. 2020b), as well as non-family board members (Sievinen et al. 2019), have been shown to exert influence on family firm decision-making outside the boardroom. We build on these findings by contributing a process component which suggests that the board decision-making can be viewed as a multi-step process where informal and formal processes intertwine and board members can be involved to varying degrees. This intertwining of formal and informal can also be viewed as a sequence of back-stage and front-stage activities where dyadic back-stage interaction plays a key role in ensuring that front-stage board meetings' can run without disturbance (cf. Graaf 2018).

Our data suggests that informal dyadic interaction can be based on the combined structural, prestige and expert power of the chair and the ownership and expert

power of the owners (Finkelstein 1992; McNulty et al. 2011). This dynamics can offer the chair and the owners of a family firm a privileged position to directly influence the content of board decisions before, after and between board meetings. In our case studies this enables the chair and the owners to enact their board roles to 'shape the content, context and conduct' and to exert control over the management (McNulty and Pettigrew 1999) in formal and informal settings. Our findings (see Table 3) suggests that dyadic informal processes can complement formal ones (by preparing for and supplementing board meetings) and compensate for them (by clarifying the outcome of the board meeting when it is unclear) (Chrisman et al. 2018; Nordstrom and Jennings 2018; Vardaman et al. 2018).

However, in our case companies informal processes do not act as a substitute for formal ones. Our case companies provide no evidence that back-stage discussions would replace front-stage interaction, as the two serve different roles in the governance of our case companies.

Our findings on the close relationship between the CEO and the chair are in line with the previous research (e.g., Koskinen and Lämsä 2016, 2017; Roberts and Stiles 1999), but they also suggest that in the context of family firms, the importance of CEO–owner and chair–owner relations should not be dismissed. They may be enacted less frequently than that of CEO–chair relations (see Table 3), but the power that the owners have through their equity holding (McNulty et al. 2011; Sievinen et al. 2020b) can magnify the influence of this behaviour.

2. Dyadic interaction can influence the board's decision-making. To avoid negative influence, the actors are shown to self-regulate their back-stage behaviour through informal rules. The board members' behaviour outside the boardroom affects boardroom dynamics (Pettigrew and McNulty 1995). The back-stage dyadic interaction forms a 'fluid space' that Vaivio (2006) describes as '*elusive, almost private spaces of organizational action*' (p. 735) that affect involvement and accountability.

Based on the work of Barroso-Castro et al. (2017), we define *cognitive conflict* as board members expressing different views, preferences and approaches when making a decision as a coalition. Several scholars suggest that cognitive conflict can have a positive influence on board performance (e.g., Barroso-Castro et al. 2017; Finkelstein and Mooney 2003; Forbes and Milliken 1999), while a high degree of social cohesion between the board members can promote groupthink (Westphal and Bednar 2005). In turn, Carpenter and Westphal (2001) observed that network ties channel influence as well as information. The extant research has largely referred to the lack of conflict with dominant CEOs, group size, a lack of diversity in terms of directors' backgrounds and group working techniques (see, e.g., Finkelstein and Mooney 2003; Forbes and Milliken 1999) as sources of reduced cognitive conflict. We suggest a novel source for it. Dyadic interaction at the back-stage can align the views of a subset of the board before the board, as a coalition, is able to discuss and decide on the agenda items. In our cases, this behaviour includes the practice of the CEO and the chair ensuring that they are on the same wavelength prior to the board meetings, as well as the owners' Bagehotian guidance for the CEO prior to the CEO preparing board proposals. Similarly, we recognise that the chair and the owners' can have discussions prior to the actual board decision, which can result in

the views converging towards those of the owners. The data show that decisions on key strategic directions and the appointment of a new CEO are preceded by the owners and the chairs discussing the viable alternatives at the back-stage hence potentially aligning the views of both the owners and the non-family board members. We suggest that these behaviours, even when not enacted in a pressuring way, can lead to the CEO's proposals for the board and the board's decisions remaining within 'Overton's window' (a concept named after Joseph P. Overton by Joseph Lehman of the Mackinac Center for Public Policy). One can, of course, argue that even without this safeguard, the board would be unlikely to make decisions that were unacceptable for the owners or the chair (the owners can always change the board, and the chair can resign). However, we propose that as this window can frame what the CEO proposes to the board and the acceptable options for the dominant coalition, it can effectively reduce the number of alternatives proposed and differing views expressed in the board meetings.

Our findings indicate that the actors recognise that dyadic interaction can be opaque, with the potential to contradict or bypass formal governance. To avoid this, the actors in our case companies self-regulate their behaviour through informal rules. In line with the findings of Sievinen et al. (2019, 2020a), Westphal and Graebner (2010) and Westphal and Zajac (1998), our data shows that there are several rules—which are similar between the two companies—that are adopted by the governance actors in order to ensure that informal governance is aligned with what is considered 'good governance'. These rules define the conduct of governance roles and the data suggests that the actors found it important to emphasise their own as well as the other actors' commitment to them. For example, in our case companies family firm owners, the non-family chair and the CEO make an effort to ensure that decisions that belong on the board agenda are not made in dyadic discussions, and that the chair is always kept aware of the content of the discussions between the CEO and the owners. These rules focus on ensuring that decisions that belong to the board agenda are made formally in the board meetings. In our case companies, however, they do not address the potential risks that relate to potential hazards resulting from a reduction of constructive cognitive conflict between the subsets of the board members.

3. Our findings suggest that dyadic relations may serve specific emotional and relational goals that may not necessarily be achieved through a larger group interaction. The chair's role in achieving the potential benefits may be central. Our data suggests that dyadic interaction may sometimes be considered more effective than larger group interaction. For example, in one of the case companies the owners used to be involved in preparing the board agenda together with the CEO and the chair, but then it was decided that the CEO and the chair would do this largely themselves.

However, our results indicate that some dyadic interaction between the key governance actors may serve specific purposes just because they are dyadic, i.e. there is an exclusion of other parties. First, our data shows that dyadic interaction can serve as an outlet for friction experienced within formal group interaction. When a CEO confidentially vents emotions with the chair after a board meeting, the fact that other board members are not present may play a key role: there can be emotional release without anyone losing face. Similarly, we propose that

when the chair gives the CEO feedback after a board meeting, the chair can protect board members' individual views by presenting the board members' views as collective feedback. From the CEO's perspective, a one-on-one interaction when receiving feedback can also provide a more balanced setting from the power perspective. Second, our study suggests that the owners may prefer dyadic interaction over formal group interaction on personal matters and matters that represent a different logic than pure economic rationality. In these cases dyadic interaction provides emotional and relational benefits and for reaching them, it is also important also who does not participate the dyadic interaction.

The formal board meeting can be considered as a space where managerialism (Johannisson and Huse 2000) and economic rationality dominates, and formal board member roles are enacted. At such times, emotions, potential non-financial goals, and other family-related matters may be viewed as 'disruptions' that should be dealt with outside formal meetings. In other words, the smooth and professional conduct of formal board meetings is at stake. Therefore, dyadic interactions may not only serve process-oriented purposes discussed in Contribution 1 but also offer important relational and emotional benefits for those involved (and potentially for those excluded, if unwanted disruption in larger group interaction is avoided). This interpretation is linked with earlier suggestions of back-stage interaction as a way to smooth out interaction at the front-stage meetings (Graaf 2018; Johed and Catasús 2018).

As Johed and Catasús (2018, p. 369) have observed, 'an interactional ritual carries expectations about how actors should relate to each other'. Our data suggests that the emotional and relational benefits of dyadic discussions may be related to the role flexibility that dyadic interactions may encourage more than formal board meetings. While the roles of CEO, a chair, and an owner may be dominant in the provision of process-related benefits (discussed in Contribution 1), these individuals may adopt other roles when seeking the emotional and relational benefits of dyadic interaction. The chair enacts a role of a trusted partner towards the CEO and an owner that of a family member or an individual shareholder towards the CEO and the chair. This finding builds on the insights of Sievinen et al. (2020a) about the role of the family firm actors' multiple identities in the context of family firm governance. Dyadic interactions can offer a platform for assuming different roles in a more versatile way than a larger, more formal group interaction.

Our findings underline the importance of the chair in orchestrating the dyadic interaction of key governance actors. Our findings indicate that the benefits of dyadic relations for a family firm governance can exceed mere process-related benefits and the 'technical' advantages of small group interaction vis-a-vis larger group interaction (Bendersky and Hays 2012; Garg and Eisenhardt 2017). Matters that depend on non-financial rationality can be discussed, and conflicts and negative emotions have additional arenas in which to be resolved. The ability to assume different roles besides that of a board member can increase the owner and the chair's response flexibility to issues that emerge in family firm governance (Sievinen et al. 2020a).

6 New research avenues and implications for the practice and other stakeholders

Considering our focus on two companies only, and the scarcity of studies on dyadic interaction in the corporate governance of family firms, we welcome further empirical research on the topic. While case studies enable the collection and investigation of detailed data, focusing on larger samples would enable replication logic. A study covering a larger sample of the CEOs, chairs and owners of family firms is needed. Also, cultural contexts that differ significantly from Nordic countries can offer further, and potentially different, insights into the dyadic dynamics between the three entities.

We consider the following questions intriguing for further research: (1) Does dyadic, back-stage interaction involve less impression management (Goffman 1959; Solomon et al. 2013) than formal board meetings? (2) What forms the basis for the actors' views on what is considered 'disruption' that needs to be dealt with outside formal board meetings? (3) To what extent, if any, are the other roles than that of a board member, enacted within the dyadic interaction by the board members, linked to the breaking the rules of what is considered 'good governance'? Furthermore, while our study is not about the advantages and disadvantages of non-family versus family member chairs, our findings on the important role of the chair in managing the informal interaction call for additional study into whether a non-family chair is differently positioned than a family-member chair to do this managing.

Also, we recommend further study on the implications of what we conceptualise as an 'Overton's window' of board work on the board's and the executives' shared understanding of the situational picture.

Our study shows practitioners that actions aimed to improve a board's decision-making process can be undermined if they address the formal governance process at the front-stage only. We argue that assessing the decision-making process of a firm is inadequate if it dismisses the role of dyadic interaction. As our research shows that the chair can enact much of their resource role as well as provide also emotional support in one-on-one interaction with the CEO, it could be useful to capture the quality of this relationship when assessing the performance of both the CEO and the chair. The chair and the owners, who can effectively support the CEO through their knowledge, experience and sometimes also ability to use empathy effectively, and the CEO, who can help the chair to facilitate board work through timely and accurate information provision, can be invaluable resources for a firm. Evaluating the performance of the board members and the CEO without taking these tasks into account does not necessarily capture the components contributing to high performance.

While dyadic interaction can be beneficial, our findings remind us that the chairs and the owners must always keep their influence in check so that it does not limit the healthy cognitive conflict required for efficient board decisions. In the wider context of the development of good family firm governance, we also suggest new approaches to make informal governance practices more transparent for the relevant stakeholders of a family firm.

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Publication IV

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Owners' rule-based decision-making in family firm strategic renewal

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Owners' rule-based decision-making in family firm strategic renewal

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ABSTRACT

We explore the process and consequences of family firm owners applying informal rules to decision-making in the context of later-generation family firms attempting strategic renewal. Based on the case studies of two firms in a Nordic country where the owners serve as non-executive board members, and following institutional action theory, we propose that informal rules – based on historical precedents and cumulative experience – applied to a family firm's decision-making play many roles. They sustain family traditions over time, transfer experience over generations and depersonalise family members' use of power. In addition, the rules on governance structure, governance processes and the content of the strategies form a hierarchy and can both facilitate and hinder the renewal.

1. Introduction

Businesses must deal with an increasing number of forces that can fundamentally change the competitive landscape. New end-user demands and emerging technologies, as well as the countervailing forces of increasing global competition and protective trade policies – or even sudden crises such as pandemics – can mean that the strategies that worked in the past may no longer be valid to sustaining businesses. Whether the decision-makers in a business can deal with change or not becomes vital for its survival. Family firms that are a significant economic and social force (e.g. European Commission DG Enterprise & Industry, 2009: 4) are no exception in this regard. However, in spite of being built for longevity and generational transfer (see e.g. Chua, Chrisman, & Sharma, 1999: 25; Donnelley, 1964: 94; Miller & Le Breton-Miller, 2005: 518), family firms have a dismal track record in surviving over the long term. Less than one third of family firms make it to the second generation and only some 15 % survive until later generations (Beckhard & Dyer, 1983: 5; Hiebl, 2015: 1061; Ward, 1987: 324). Not surprisingly, in recent years family firm renewals have received increased scholarly interest. For example, there are the publications of Bégin, Chabaud, and Hannachi (2010), Canterino, Cirella, Guerci, Shani, and Brunelli (2013), Cater and Schwab (2008), Miller and Le Breton-Miller (2005), Salvato, Chirico, and Sharma (2010), Sardeshmukh and Corbett (2011),Sievinen, Ikäheimonen, and Pihkala (2019) and Sievinen, Ikäheimonen, and Pihkala (2020). While difficulties stemming from the owners' bias towards perpetuating the legacies of the past (Jensen, 2003; Le Breton-Miller & Miller, 2006; Miller & Le Breton-Miller, 2005) can hinder change, several scholars propose that the long-term focus and altruistic behaviour typical of family firm owners can also facilitate renewal (Cater & Schwab, 2008; Miller & Le Breton-Miller, 2005; Salvato et al., 2010). Other scholars in turn have shown that family firm owners may conceptualise the risk differently to others and hence family firm approaches to performance-improving strategies may differ from those of non-family firms (see e.g. Gomez--Mejia, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Gomez-Mejia, Makri, & Larraza-Kintana, 2010; Gomez-Mejia et al., 2014).

The board of directors plays an important role in assessing a firm's long-term strategic direction and supervising management (Gopinath, Siciliano, & Murray, 1994: 25; Hass & Pryor, 2005). As Pieper, Klein, and Jaskiewicz (2008: 373) and Silva and Majluf (2008: 610) observed, family firm owners can exercise control directly through management positions or serving on the board, or indirectly through appointing non-family managers as well as board members (Corbetta & Salvato, 2004). In turn, Sievinen et al. (2020) have shown that the family firm owners who serve on the board of a family firm can exercise an important influence on the direction of the strategic renewal of that family firm both inside and outside the boardroom. Family firm board roles and family involvement in corporate governance, as well as the relationships between owners and managers in family firms, have also been discussed in this journal in recent years (see e.g. Lohe & Calabrò, 2017; Sanchez-Famoso, Pittino, Chirico, Maseda, & Iturralde, 2019; Yoo & Jung, 2015). Overall, the existing literature indicates that owners can exercise significant influence on family firm decision-making, even

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when they are not involved in the daily management of the firm. It also suggests that through this influence the owners can both facilitate and hinder family firm renewal. In spite of these findings and the owners' equity interest, discretion and command of the organisational agenda (see, e.g. Carney, 2005: 253–254; Chrisman & Patel, 2012: 976; Hiebl, 2015: 1070; Le Breton-Miller & Miller, 2006: 734; Miller & Le Breton-Miller, 2005: 525), there is limited understanding of **how the owners exercise this influence in family firm decision-making and how it influences the renewal**. We think this is an important question to ask if we are to understand and conceptualise the change mechanisms of family firms that may ultimately determine whether a family firm survives or not. This understanding can contribute both to theory and practice.

Hence, we suggest that it is worthwhile looking at the family firm owners' decision-making when a family firm is seeking to rejuvenate its strategies. One way to do this is to study the role of the rules that steer decision-making. As March (1994: 58) observed, rule following is well accounted for by theories of behaviour that recognise decision-making as a form of the logic of appropriateness: economists and political scientists talk about the importance of institutions; anthropologists talk about culture and norms; sociologists talk about roles; and psychologists talk about identities, production systems and schema. Formal rules are explicit and well codified, while informal ones are more implicit but can also form strong expectations that guide behaviour and be important in senior-level decision-making (Huse, 2007; Ocasio, 1999; Whisler, 1984). Ocasio (1999) shows that both formal and informal rules on CEO succession have an effect on board decisions and that informal rules can under certain conditions be central in steering the decision-making. Huse (2005: 74, 2007: 177) draws the conclusion that informal rules can be more important than formal ones. Whisler (1984) in turn discusses how informal rules and expectations of board members' behaviour play a key role in board appointments, the board's decision-making process and the board members' interaction with each other and the management. While informal processes have been recognised to play a particularly important role in family firms (see e.g. Astrachan, 2010; Canterino et al., 2013: 58; Cater & Schwab, 2008: 40; Drakopoulou Dodd, Anderson, & Jack, 2013; Gersick, Davis, Hampton, & Lansberg, 1997: 132; Gomez-Mejia, Cruz, Berrone, & De Castro, 2011: 663), their role and influence in the steering of family firms has scarcely been researched.

Strategic renewal calls for changes vis-à-vis the status quo. As the current strategy of a firm is being challenged, the existing informal rules are used to guide decision-making but their relevance in the changing environment can also be questioned (formal rules may of course also be questioned and evolve, but as they have an institutional basis this process is unlikely to be related to a single company having a strategy that does not fit with the changing environment). In this paper we explore the family firm owners' reliance on informal rules in their decision-making inside and outside the boardroom in two later-generation Finnish family firms that are attempting strategic renewal. Our study follows the institutional action theory (IAT) proposed by March and Olsen (1989), and deepens the conversation at the nexus of family firm corporate governance and strategic change. Our study makes several contributions. First, as IAT highlights the importance of identity in decision-making processes, we suggest that while family firm owners who serve as non-executive board members can have multiple identities, their **identity as owners dominates family firm owners' decision--making.** However, our study also shows that other *contextually relevant* identities (Ashforth & Johnson, 2001: 32; Hillman, Nicholson, & Shropshire, 2008: 443) – those of a board member and an ex-executive (someone who has served as an executive in the past) – can increase the response flexibility (Hillman et al., 2008; Thoits, 1983) of the owners as they can shift their focus from being in a control role to resource provision. We propose that the salience of the family firm owners' owner identity in the boardroom can have both a positive and a negative effect on board dynamics.

Second, the results of our study indicate that **the owners' informal rules can sustain family traditions and transfer experience over generations, as well as depersonalise the use of power.** We propose that the informal rules applied to decision-making by the family firm owners that are related to governance structure, governance processes and the content of the strategies reflect the experiences that the family members have accumulated over time as owners. These rules are also accessible for the next generation of owners who have had no direct personal experience. While rules are context-sensitive to a certain extent but relatively stable within a context, we argue that they provide consistency in responses over time and hence can help to sustain family experience and tradition. Whereas Salvato et al. (2010) focused on the role of a charismatic family member as a change champion in a family firm renewal, we provide evidence that informal rules can create built-in stability that goes beyond the personalities and desires of individual family members, or even of a generation, and hence depersonalise the use of power of family members. While Sievinen et al. (2020) discuss governance processes as an institutionalised change capability in a family firm, this study shows that the rules followed by the owners form an underlying motive for setting up these processes that can then be used to enforce the adherence to the rules.

Third, we argue that **family firm owners' rules form a hierarchy and they can both facilitate and hinder the renewal.** IAT proposes that the identities of decision-makers connect to the organisational rule structure (March & Olsen, 1989; March, 1994). This study provides a novel rule-based perspective on family firm strategic renewals as it proposes that the owners are willing to consider a radical transformation when the change in contingencies threatens their ability to adhere to the rules. In the midst of disruptive renewal, the rules also provide the decision-makers with a sense of order (March & Olsen, 1989; Ocasio, 1999) as the owners make efforts to ensure that the renewal strategies are executed in a way that is aligned with the rules that they adhere to. If the renewal requires profound changes to the rules, we argue that the changes need to be accepted by the owners so as to facilitate the owners to commit to the new strategic vision, a key element for a successful family firm renewal (Canterino et al., 2013; Sievinen et al., 2020). If the owners decline to do so, renewal can be hindered. The results of this study indicate that in the context of a strategic renewal, some rules may be more likely to be modified or changed than others and, due to this, the rules form a hierarchy based on how static they are. We build on the findings of Sievinen et al. (2020), based on the renewal framework of Huff, Huff, and Thomas (1992), that proposed that the influence of family firm owners' behaviour on family firm renewal is temporally contextual, by suggesting that depending on the stage of the renewal, the same rule applied by the owners can be both stress- or inertia-inducing as defined by Huff et al. (1992). This, coupled with our proposal that the owners can both facilitate and hinder renewal subject to their readiness to alter the rules when contingencies change, provides a more nuanced view of the owners role in a family firm renewal than that depicted by the extant literature, which portrays the owners more strictly either as a source of change and entrepreneurial orientation (e.g. Bégin et al., 2010; Salvato et al., 2010) or complacency and resistance to change (e.g. Canterino et al., 2013).

2. Theory

2.1. Rules in decision-making

Based on the work of Giddens (1984: 2), Ocasio (1999: 385) defined rules as socially-constructed techniques or generalisable processes that are history-dependent and applied to the enactment and reproduction of social structure. These informally and formally codified standards are rooted in the knowledge, capabilities, beliefs, values and memory of the organisation and its members, and are invoked in response to internal and external stimuli (Ocasio, 1999:386). Socialisation into them is not typically an explicit entry into a contract but they are '*learned as*

catechisms of expectations' (March & Olsen, 1989: 23). In a company context, rules can play a key role in decision-making, and the identity of decision-makers can be considered to be connected to the organisational rule structure (March & Olsen, 1989; March, 1991).

2.1.1. The rule-based decision-making process

As Zhou (1993) observes, after Weber's early work at the turn of the century, the role of rules in organisational action caught the interest of many scholars, including Crozier (1964), Cyert and March (1963), Gouldner (1954), and Merton, Gray, Hocky, and Selvin (1952), at mid-century. A few decades later, March and Olsen (1989), Nelson and Winter (1982), North (1990), Perrow (1986) and Zhou (1993), for example, provided further insight into the rule phenomena in organisations. In particular, the development of institutional theories (see, for example, DiMaggio & Powell, 1983) played a key role in explaining behaviour by the need to conform to societal pressures, reflected in prevailing norms. However, the focus of institutional theories has largely been on the influence of the broad institutional environment rather than organisational-level phenomena and on processes rather than decisions and actions (Huse, 2007; Ocasio, 1999). As an exception to this, the IAT proposed by March and Olsen (1989) focuses on the role of organisational- and individual-level rules that shape decision-making and action. It offers an alternative view to the theory of rational choice in explaining decision-making, and it proposes that organisational decisions are enacted through the application of appropriate rules that stem from organisational actors' history (Selznick, 1957) and shape the actors' cognition (Zucker, 1977). March and Olsen (1989: 23) and March (1994: 58) depicted this process through a set of three questions that define the logic of decision-making. A decision-maker first assesses the situation at hand (by asking questions of recognition), then confirms his or her identity in a given context (by asking questions of identity, i.e. 'What kind of person am I?' or 'What kind of organisation is this?') and finally arrives at the rules (by asking 'What does a person like myself or an organisation such as this do in a situation such as this?'). March (1994: 67) described the adopted, standardised identities of decision-makers as '*socially constructed contracts, motives, and cognitions that connect to organisational rule structures*'. Historical and lived experiences play key roles in shaping the rules (Huse, 2007; Ocasio, 1999) as '*the past is seen as imposing itself on the present through retention of experience in routines, and rules are seen as a residue of the past*' (March, 1994: 79). Hence, the decision-makers may not follow the precepts of consequence-based logic (assessing the values of alternatives against set preferences) in their decision-making (Cohen, March, & Olsen, 1972), as is often assumed in governance literature. As March and Olsen (1989: 22) observe, accepting that human behaviour is governed by rules does not mean that it is unreasoned. It can be very carefully considered but, instead of evaluating the values and probabilities of alternatives against set preferences, the decision-making process follows a logic of appropriateness. In this process, decision-makers fulfil their identities by applying rules that are related to these identities and are considered appropriate to the situation at hand.

2.1.2. Rules in board decision-making

The studies of board-level decision-making based on traditional governance theories (see, for example, Fama & Jensen, 1983; Jensen & Meckling, 1976; Pfeffer & Salancik, 1978) have largely been dominated by a normative assumption of pure consequence-based logic. However, to reduce the mystery of how board decisions are factually made, there have been several calls to look into actual board decision-making processes inside and outside the boardroom (see e.g. Bankewitz, 2018; Daily, Dalton, & Cannella, 2003; Finkelstein & Mooney, 2003; Gabrielsson & Huse, 2004). In line with this approach, the role and the development of norms and rules as a source of memorised, socially constructed expectations have been recognised as an area worth exploring further (Huse, Hoskisson, Zattoni, & Vigano, 2011; van Ees, Gabrielsson, & Huse, 2009). As Huse (2007) and Ocasio (1999) observed, IAT has traction with this approach and has several aspects that can be used to explain board behaviour. Ocasio (1999) suggested that, given the ambiguity typical of the strategic decision-making of boards, rules may play a role in facilitating the directors' decisions. Rules, as historically constructed procedures for action, can steer the attention to selected aspects of the problem at hand (Huse et al., 2011), and they can help directors channel political conflicts, as well as justify their decisions, hence facilitating accountability and the ability to meet fiduciary duties (Ocasio, 1999).

Rules that influence board decision-making can be informal or formal. Formal rules can include reliance on a committee of non-executive directors setting executive compensation if there are executives serving on the company board, or the board approving capital expenditure that exceeds certain limits (Ocasio, 1999). In turn, as Ocasio (1999) describes, informal rules include unwritten practices, such as not criticising the CEO openly, rationalising board decisions through a narrative of serving shareholder interests, or directors not being in touch with other directors outside the board meetings (Lorsch, 1989; Mace, 1971). The informal rules can be unwritten and may differ from normative expectations. As Mace (1971: 178) observed, there was '*a considerable gap between what directors do in fact and what the business literature said they should so*'. While many of the formal rules reflect the recommendations or requirements of corporate law or governance codes – such as the Sarbanes-Oxley Act (2002) in the US, the Higgs Report (2003) in the UK, the Tabaksblat Code (2003) in the Netherlands and the Cromme Code (2003) in Germany – many of the important actual practices appear to be informal rules adopted so as to satisfy the internal needs of the organisation (Huse, 2007).

2.1.3. Rules, change and stability

Structural resistance to change serves a function in organisations, providing accountability and stability, but it can also be an obstacle for change (Hannan & Freeman, 1984; Zhou, 1993). Rules can play a key role in this: as the organisation's actions become routinised and the norms of appropriate beliefs established (March & Olsen, 1989), the reliance on the adopted rules can persist, regardless of the contingencies. However, while the rules can constrain action and feed organisational resistance to change, they also facilitate decision-making as they provide readily available solutions for the enactment of decisions (Cohen et al., 1972; March & Olsen, 1976), as Ocasio (1999) observes. Rules can also change over time and Zhou (1993), for example, discusses three sources of rule dynamics: growing organisational complexity, organisational learning and institutional processes: rules provide tools for coordination as organisations grow more complex, rules store organisational learning that in itself is a dynamic phenomenon, and rules are a key tool for the authorities to increase their influence over organisational life.

2.1.4. Rules and identity

IAT does not define in detail its conceptualisation of identity and self. In modern literature on psychology, sociology and social psychology, the identity of an individual can be understood either through identity theory or social identity theory. Identity theory suggests that the '*self is a collection of identities derived from the role positions occupied by the person*' (Hogg, Terry, & White, 1995: 259–259). These role identities differentiate between the roles and the roles influence social behaviour (Hillman et al., 2008; Hogg et al., 1995). Social identity theory also recognises the multiple identities of an individual but argues that social categories, rather than roles, form the basis for different identities (Hillman et al., 2008; Hogg et al., 1995). Social identity is considered to be dynamic and responsive to social context (Hogg et al., 1995).

As Hillman et al. (2008) noted, a growing body of research now accepts an individual's multiple identities and identifications as key predictors of behaviour; hence they suggest that understanding this dynamic can provide insights into the workings of corporate boards. Identity shapes self-definition, relations with others and behaviour (Callero, 1985), and the cognitive system of an actor '*matches social*

categories to properties of the social context and brings into active use (i.e., makes salient) that category rendering the social context and one's place within it subjectively most meaningful' (Hogg & Terry, 2000: 125). In the family firm concept, the concept of self among family firm owners is recognised as being closely tied to the family business (Gomez-Mejia et al., 2012). While social identity is central to Tagiuri and Davis' (1992) seminal depiction of the family firm system as overlapping domains of family, business and ownership (Waldkirch, 2015), Gomez-Mejia et al. (2007: 108) observe 'organizational *identification should be particularly salient in family firms, adding much to its socioemotional wealth*'.

The stronger the identification or salience of the identity and the more contextually relevant the social identity is (Hillman et al., 2008; Ashforth & Johnson, 2001), the stronger the alignment of the actions with the normative behaviours of an identity. As a result, rule following with organisational actors can be associated with identifying with the rules of a social group (Gouldner, 1954; March & Olsen, 1989). However, rules and their applicability can be ambiguous and individuals have multiple identities (March & Olsen, 1989). The multiple identities of individuals offer both benefits and disadvantages as they have been associated with status security, ego gratification and the availability of resources for role performance (Sieber, 1974) but also with role conflicts or overload (Biddle, 1986; Kreiner, Hollensbe, & Sheep, 2006), Hillman et al. (2008) observed. However, the adverse effects of too many or too few identities can be reduced by the relationships between the identities and the alignment of the identities (Hillman et al., 2008).

In line with the findings that organisational identification plays a key role in affecting an individual's commitment to an organisation (see, e.g. Ashforth & Mael, 1989; Dutton, Dukerich, & Harquail, 1994), Golden-Biddle and Rao (1997) have shown that board members' identification with an organisation plays an important role in the construction and enactment of a board's role. Golden-Biddle and Rao (1997: 606) also introduced the concept of '*conflicts of commitment*', an intra-role conflict where directors are besieged by conflicting aspects of organisational identity. They can threaten the organisation's identity and reduce the organisational actors' identification with the organisation, Golden--Biddle and Rao (1997) suggest. The shared values of board members have been suggested as being rooted in the board members' view of what is appropriate behaviour, which is shaped by legal fiduciary requirements as proposed by Clark (1991), and the normative commitments of the board members to the duties of loyalty and care, Ocasio (1999) observed. Rules become embodied with values and foster social identification among the board members and the management's social identification (Ocasio, 1999).

2.1.5. The rationale for selecting IAT as a theoretical framework

When analysing our data, we reviewed the data and emerging concepts through several theoretical approaches to find a theoretical framework that offers a good fit with the purpose of the study and can help to shed light on the important question of how family firm owners make decisions and what implications this has on the change capabilities of a family firm. Our decision to apply IAT was driven by several reasons. First, it conceptualises decision-making as a behavioural process and intends to describe it 'as is' in concrete settings. Second, earlier research suggest that the theory of rational choice – which emphasises that individuals guided by self-interest predicting the future and formulating preferences are key elements of the decision-making process – may not capture all the facets of the decision-making of family firm owners in a satisfactory way. Instead, we argue that IAT, with its focus on learning from past experiences and adopting appropriate identities, provides fertile ground for studying the decision-making of family firms at the micro-level and hence can make a meaningful contribution both in theory and practice.

2.2. Family firm renewals

Agarwal and Helfat (2009: 282) describe strategic renewal as processes, content and outcomes related to refreshing or replacing organisational attributes relevant from the perspective of the long-term prospects of an organisation. Strategic renewal as a theoretical construct and an empirical phenomenon has been conceptualised in many ways (see e.g. Bégin et al., 2010; Baden Fuller and Volberda, 1997; Miller, Gomes, & Lehman, 2019; Schmitt, Raisch, & Volberda, 2016). Family firms are built for longevity (see e.g. Chua et al., 1999: 25; Donnelley, 1964: 94; Miller & Le Breton-Miller, 2005: 518) but they have also been characterised as being prone to stagnation and complacency (see for example Canterino et al., 2013; Miller & Le Breton-Miller, 2005). Hence, from the perspective of this study Huff et al. (1992) offer an important framework that conceptualises the renewal through the forces of stress and inertia that exist simultaneously in an organisation. Huff et al. (1992) assumes a mature organisation to be highly committed to its strategy, a phenomenon defined as *inertia*. Hence, according to Huff et al. (1992), *inertia* is not a direct synonym for *complacency* but rather describes a situation where the organisation does not feel a need to adjust or respond to internal or external stimuli through radical changes. As time goes by, the organisational commitments to the current strategy grow, and inertia increases. However, the passage of time also sows the seeds for change. The organisational members are exposed to different kinds of stimuli, and if the results of the chosen strategy cease to meet the expectations and small, incremental changes to it are inadequate for solving the situation, the organisation starts to experience growing *stress.* As a result of this, it may decide to review alternatives for its chosen strategy. If the expected outcomes of the alternatives are considered to outweigh the risks of a renewal, the renewal process is triggered. In this way, the organisation moves from *inertia* to *stress* and once the new strategy is established, starts a phase of growing *inertia* again as the commitment to a new strategy starts to grow again, Huff et al. (1992) suggest. Hence renewal efforts that can be depicted as a process where renewal efforts are '*virtually continuous, but pulsing in ways that depart more or less dramatically from the status quo over time* (Huff et al., 1992: 55) as the forces of inertia and stress alter the organisational activity.

The last two decades have witnessed a growing scholarly interest in family firm renewals. Brunninge, Nordqvist, and Wiklund (2007), Jensen (2003), Miller and Le Breton-Miller (2005), Sardeshmukh and Corbett (2011) and Sundaram (2019), for example, discussed the antecedents of family firm success or failure. Several studies have also suggested that family firms may approach actions designed to rejuvenate firm strategies differently to non-family firms. A seminal study by Gomez-Mejia et al. (2007) on Spanish olive oil mills showed that potential gains or losses of socioemotional wealth ('SEW') formed the family firm owners' primary frame of decision-making on new strategic directions. A study by Gomez-Mejia et al. (2010) in turn found that family firms are less likely to engage in diversification activities as a renewal tool, and Gomez-Mejia et al. (2014) found that when deciding on R&D investments, family firms weigh potential SEW losses against potential performance gains.

Another stream has adopted a case-based approach with a focus on understanding at the micro-level how family firm renewals happen. This multi-theoretic stream has adopted a strongly processual approach and provides an important reference base for this study. We especially highlight the studies of Bégin et al. (2010), Canterino et al. (2013), Cater and Schwab (2008), Salvato et al. (2010), and Sievinen et al. (2019, 2020). In their case study of two US-based companies, Cater and Schwab (2008: 44) recognised two different types of strategies when firms rejuvenate themselves: at stage one the focus is on top management changes, seeking external expertise and retrenchment and at the stage two the focus is on specific organisational change strategies dealing with products and different organisational functions. While common family firm features such as internal orientation can cause hinder change, some family firm characteristics such as altruism and long-term orientation can also facilitate the process, Cater and Schwab (2008) argue. The important role of the family firm owners is also recognised by Salvato

et al. (2010) in a study of an Italian family firm exiting from the founders' business and refocusing the entrepreneurial efforts on a new business. The study suggests that a charismatic family representative, '*a farsighted family champion of continuity*' (Salvato et al., 2010: 321), can play a key role in renewal process as family values must be reinterpreted so as to legitimise the new strategic direction. This enables the preservation of an institutional identity while the business focus of a firm changes significantly, Salvato et al. (2010) argue. Canterino et al. (2013) in turn describe a transformation process of an Italian family firm and emphasise the role of a non-family leader in breaking up complacency built up over the years.

While Cater and Schwab (2008), Salvato et al. (2010) and Canterino et al. (2013) focused on a renewal process within a certain period of time, Bégin et al. (2010) studied the renewal strategies of a French family firm longitudinally throughout its 180-year history. The study highlights the role that desires to sustain a firm over the generations play in an entrepreneurial attitude that facilitates long-term survival. Sievinen et al. (2020) discuss how the owners who serve on the family firm board trigger and facilitate a family firm renewal by taking decisions between themselves and influencing the organisational decisions. They show that the owners' influence extends beyond the AGM and boardroom and that this influence can both drive the change and provide stability. Sievinen et al. (2019) in turn show that while non-family board members can play an important advisory role in a family firm's strategic renewal, it is only after the owners express their desire for renewal that the non-family board members actively enact this role.

A common theme for the above studies is the recognition of the key role of family firm owners when a family firm faces a need for strategic renewal. Bégin et al. (2010) and Salvato et al. (2010) view the owners as key drivers for entrepreneurial orientation, while Canterino et al. (2013) portray the owners as key sources of complacency. Cater and Schwab (2008) highlight the role of the owners both in preserving the status quo and driving change, while Sievinen et al. (2020) suggest based on Huff et al. (1992) that inertia-inducing actions of the owners can, at the certain stage of the renewal, also facilitate change. While all these studies provide important insights into family firm renewal, they provide few answers on how at the micro-level the family firm owners exert (sometimes even seemingly contradictory) influence. We believe that understanding how the owners of a family firm exercise their influence in family firm decision-making and how it influences the renewal would help us to understand the change mechanisms of family firms in greater depth. This understanding can contribute both to theory and practice.

2.3. Key definitions and context

The subject of our research is owners' rule-based decision-making in the strategic renewal of later-generation family firms. Chua et al. (1999: 25) defined a **family firm** as '*a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations or families*'. We define **later-generation family firms** as family firms '*in which family members of the second or later generations are involved in the management and/or ownership*' (Hiebl, 2015: 1062). In our case companies, later generation involvement happens largely through involvement in the ownership. For **strategic renewal** we have adopted the definition of Schmitt et al. (2016: 5) that describes strategic renewal as '*the process that allows* organizations *to alter their path dependence by transforming their strategic intent and capabilities*'. We call the stage where the actions directed to carry out a company strategic renewal have been started but are still ongoing and hence the outcomes of the actions are still uncertain **attempted strategic renewal**. Our case companies operate within **the Finnish governance system** that is based on civil law and recognises three key decision-making bodies: the shareholders meeting, the board of directors and the managing director (the CEO). The board, which is accountable to shareholders for the overall organisation of the company's operations, usually consists of members who are non-executives. The board appoints a CEO who is responsible for the day-to-day operations of the company. In line with Finnish governance's best practices, in our case companies all board members – including those who do not belong to the family that owns the firm (i.e. **non-family board members)** and the owners who are later-generation descendants of the founder – are **non-executive directors** (i.e. they are not part of the management team).

For **rules** we have adopted a definition based on the work of Giddens (1984: 2), March and Olsen (1989: 22), Ocasio (1999: 385) and Zhou (1993: 1134) that views rules as socially constructed informal and formal standards around which organisations are governed, activity is constructed and that are history-dependent and reflect organisational learning, as well as the imprinting of institutional pressures. We focus on **informal rules** that we define as rules that steer decision-making but are not codified in corporate law, a firm's articles of association, shareholders' agreements or other codes of conduct. When referring to **identity**, as proposed but not defined by IAT, we understand it as social identity represented by a collection of group memberships that define the members' attributes, i.e. how one should think and behave (Hogg et al., 1995: 259–260).

3. Material and methods

3.1. Research design and data collection

The data we use was built up over several years. When we started our research on the strategic renewal of family firms in 2017, we opted for a case study approach, a prominent methodological approach in family business research (Leppäaho, Plakoyiannaki, & Dimitratos, 2016), which would provide data from several sources. The selection of the first case company – as well as the second one later on – was not randomised (Eisenhardt, 1989) but based on selected characteristics. Both companies fit the definitions of later-generation family firms attempting a strategic renewal as discussed in *2.2. Key definitions and context*. In addition, in both firms shares and votes are controlled by the later-generation members of the family of the founder of the firm. An important selection criterion was also access to the data that we were granted. Our selected research design selection of two cases was not done so as to enrich the data and ensure a variety of perspectives by selecting two companies that are late-generation family firms attempting a strategic renewal and where the owners participate primarily though serving on the board.

The first company we identified as a case company (Company 1) was founded in 1921 and, having undergone several of transformations, it currently focuses on lighting controls and luminaire components. In order to gain a 360-degree view, in 2017 we conducted semi-structured interviews with the main owners serving on the board, all the non-family board members and selected TMT members, including an ex-CEO and the serving CEO of Company 1. The data set also included board materials, such as agendas, presentation materials and minutes, as well as public materials, such as corporate history, white papers and marketing materials. The board materials provided important background information with regard to the timing and content of the actions of different organisational actors and helped us to form a first data organisation device (Langley, 1999) and to establish a plausible view of the chronology of the key events. Other materials helped us to understand the firm, its history and the industry and hence to understand the circumstances behind the events described by the informants.

At the second stage, in 2018 we extended the data set by including another family firm in a similar stage of business development where the main owners are siblings. This company (Company 2) was established in 1906 as a sawmill in the southern part of Finland. The interviewees in Company 2 included two of the main owners serving on the board, a non-family member chair of the board, another non-family board member and a non-family member CEO. As with Company 1, we had

access to the company archives, including all the board materials. Publicly available data and company marketing materials were also utilised in a similar way to that in Company 1. In addition to interviews with Company 2 representatives, we also conducted more interviews in Company 1 to extend the data set further.

While our focus in 2017 and 2018 was not on rules, a relatively scarcely-researched theme that had emerged unexpectedly from the initial data and now appears to be a highly promising research area (Alvesson & Kärreman, 2007), we conducted additional interviews in 2019. We felt that the earlier interaction with the informants had built additional rapport and we had even better access to the informants than earlier. Overall, thanks to the trust we had developed as well as the lack of cultural or other barriers, we had little difficulty in gaining good access to the board members, an issue that has been recognised as a key barrier for board research (Bammens, Voordeckers, & Van Gils, 2011; Bettinelli, 2011; Leblanc & Schwartz, 2007; Zahra & Pearce, 1989).

At each stage of the data collection we ensured that our interview guidelines were carefully designed and we paid special attention to ensuring that our questions did not seek to verify our possible preconceived notions. Based on our interview guidelines, the interviews were begun by explaining the purpose of the study as well as the planned use and handling of the data, followed by general questions applicable to all interviewees on their background and role in the company if they were interviewed for the first time. We then proceeded to a set of questions relevant to the role of the interviewee. Interviews were concluded by offering the interviewees an opportunity to bring up topics that we may have ignored but the interviewee felt were relevant. In both companies our first interviews were focused on the past events so as to understand the context well but as we proceeded, we focused increasingly on the behaviours and actions of the interviewees as well as their beliefs and interpretations of these events. As we gained more information during the interviewing process, we allowed it to impact the subsequent interviews. We also did 'backtracking' (Gioia, Corley, & Hamilton, 2013: 26) as some of the new interviews caused us to go back to prior interviewees.

When we started the interviews, both companies had already begun the renewal process. As the interview questions covered events in the past, we had to deal with retrospective bias. Numerous informants with whom we discussed the same events provided a triangulation of the sources. Archive data such as board agendas, minutes and presentation materials enabled methods triangulation. As we finished the interviews, many activities related to the renewal process were still ongoing in both companies and the outcome of the process remained uncertain. However, as our focus was on the renewal process rather than outcome, we did not consider this an issue.

As a result of this staged process of data collection, the data used in writing this paper consisted of 25 semi-structured interviews that were scheduled to last between 45 and 90 min. The interviews primarily took place at the company premises or at board meeting locations and, with the exception of three phone interviews, the interviews were conducted face to face. All the interviews were conducted in either Finnish or English and were transcribed.

See Appendix A for Table A1: Interviews.

3.2. The case companies

In 2016 Company 1 focused on lighting solutions, generating sales of EUR 76 m, of which over 97 % came from outside Finland. The key sites are in Finland and the UK, supported by a global sales organisation. The ownership of the company remains focused on the fourth generation, with the shares only being held by six cousins. Two family members (whom we refer to as the owners of Company 2), brothers, serve on the board, which also has four non-family members, one of whom chairs the board. In the past one of the owners served as an executive in the company. The renewal process of the firm was triggered by the owners in 2014. The renewal strategies have included the appointment of a new non-family chair, other non-family board members and two new CEOs; refocusing the business; and reallocating resources so that lighting controls were recognised as the key strategic growth business.

Company 2 operates production facilities in Finland, Russia and Poland and its products include plywood, sawn timber, chipboard and other selected wood-based products. In 2017 the company reported sales of EUR 270 m, of which over 80 % were generated outside Finland. Company 2 is 100 % owned by the founder's three grandchildren and their children, while one of the subsidiaries is held by a more diverse group of (extended) family members (of the same family). The board of Company 2 consists of two representatives of the third-generation main owners (whom we refer to as the owners of Company 2) as well as three non-family board members, one of whom serves as a chair. In the past both owners serving on the board have served as executives in the company, but similarly to Company 1, they are no longer involved in the daily operations. However, one of the children of the main owners is employed by the firm. The financial crisis in 2008 hit the company hard and the investment capability of the firm was constrained by the tight covenants set by the banks. In 2014, the third-generation main owners appointed the first non-family member chair of the board who triggered a renewal process. Over the ensuing years, the renewal strategies have included a change of the CEO, renegotiating loans, the disposal of selected assets and investments into new growth opportunities.

3.3. Data analysis and theory articulation

To ensure the transparency and academic rigour of our approach, we chose to apply the Gioia method (Gioia et al., 2013; Nag & Gioia, 2012). After we had listened to the interviews carefully and had them transcribed, we started the analysis by creating the first-level data structure by coding all the interviews and naming 190 initial categories using a representative quote to keep the informants' voices alive. In our analysis we used a combination of N-Vivo and manual analysis. As we worked with the data in an iterative way, it started to reveal the themes that related to the owners' roles, the principles they applied and the challenges they experienced. Instead of focusing on the chronological narrative of the key strategies executed, as we had done in our earlier research on a data set that was partially the same, we now looked at the data and observed behavioural patterns related to the owners' principles, beliefs and experiences that influenced the family firm decision-making. At the next stage of the analysis, as we wanted to arrive at *the second-order concepts*, we widened the lens through which we looked at the data and took steps to interpret it at a more conceptual level. This called for identifying the larger narrative by reading the extant literature and studying that data through several alternative theoretical lenses. Based on our iterative approach of working both with the theories and the data, it became evident that IAT could form an important theoretical framework. We also continued to make use of concepts on family firm strategic renewal and strategic renewals in general (e.g. Bégin et al., 2010; Cater & Schwab, 2008; Canterino et al., 2013; Huff et al., 1992; Salvato et al., 2010). As a result of this process we ultimately combined the data-based categories, *the first-order concepts*, with the researcher-induced themes to create 12 *second-order concepts*.

Throughout the research process we carefully addressed the fact that one of the writers serves on the board of one of the case companies. All the data collected, its analysis and suggested interpretations by this writer were carefully reviewed by the two other writers.

While data collection and analysis continued to be an iterative process, we did not hurry with the process of assembling the *second-order concepts* into *aggregate dimensions* to build a full data structure. Instead, we once again returned to reading the theory, challenged our early interpretations and conducted several additional interviews. Slowly, we started to feel that additional reading of theory and new data provided only marginal value given the scope of our research interest. At this stage, we drafted our first full data structure including the *aggregate*

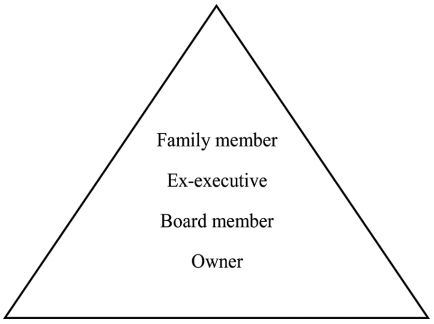

Fig. 1. Family firm owners' decision-making identities.

dimensions and first drafts of a model to reveal the relationships between the key concepts as depicted in Fig. 3. *The rule-based decision-making of family firm owners in the context of a family firm renewal* in section *5 Key findings – the rule-based decision-making of family firm owners.*

See Appendix B for Fig. B1: The data structure.

As we had already received feedback on our interpretations from the informants and exposed our data collection, data analysis and results throughout the research process to be reviewed and discussed in the research team meetings attended by several experienced researchers not directly involved in this study, we now felt that the data structure and proposed model enabled us to have more in-depth discussions. In addition, we tested our approach and framework with several seasoned executives and researchers to ensure its relevancy.

4. Results and discussion

4.1. Decision-making identities

In this section, we discuss the identities that family firm owners adopt in family firm decision-making. Our data provides evidence that the family firm owners' identity matters in family firm decision-making, both for the owners themselves as well as non-family members involved in family firm system. While the family firm owners primarily enact their owner identity when operating within the family firm governance, it shows that the owners can also adopt other identities (Fig. 1).

4.1.1. Identity as an owner and a board member

The data suggests that in family firm decision-making, the owners predominantly identify themselves as owners. The owner informants refer to themselves as owners and predominantly rationalise their behaviour through the rules that relate to this identity. Similarly, non-family board members and management interpret the behaviour of the owners through the lens of owner identity. While non-family board members do not suggest that the owners should highlight their status as owners in board decision-making or that their identity as owners would be the sole driver in all their expressed views, the non-family members felt that 'the owners are the owners' in the board discussion preceding the decision-making:

> *I don't think that [the owners] necessarily ask different questions [in the board meetings], they ask questions like the rest of the board in terms of the business […] but everybody knows they're the owners. (A non-family board member, Company 1)*

This highlights the fact that non-family members view the owners to act predominantly under the identity of an owner in board discussions. It is not necessarily how the owners behave or what they say, but more the knowledge among everybody that they are the owners.

While the owner identity dominates and can therefore restrict the owners' ability to adopt another identity in the context of family firm decision, the data suggests that adopting an owner identity can also help to reduce role conflicts. An owner suggested that the shared principles of how to enact the identity of an owner provide a common platform for decision-making without restricting individual freedom outside the ownership context:

> [There are principles of ownership] *that relate to what we need to agree on as owners. But then* [as individuals] *we can* [have any beliefs whatsoever], *and that is very important in our family.* (An owner, Company 1)

4.1.2. Identity as an ex-executive

While the identity as an owner appears dominant in the data, it suggests that the owners can also adopt other identities. While none of the owners interviewed serve in a daily operational role in the family firm any longer, in both companies one or more of the owners had held an executive position in the firm in the past. In both companies the owners who had held a position as a managing director or headed a business unit/function now serve as vice chairs on their boards and have frequent interaction with the CEO, including interaction outside the boardroom. While the owners recognise the importance of the owners not exercising control over management outside the board in an opaque way, the expertise of these owners is recognised (if sometimes with reservations) by the non-family managers. We interpret the data to mean that when assuming an identity as an ex-executive and advising management, an owner can enact an identity that is based on his or her personal professional experience. The data also suggests that the identity of an ex-executive can increase an owner's response flexibility as it can shift the focus of the owner from control to resource provision. As discussed by Thoits (1983), numerous identities are related to less psychological distress. However, based on the data it is evident that even when enacting an ex-executive identity, it is not possible for an owner to put his or her owner identity fully aside as 'everybody knows they're the owners'.

Also, the data provides evidence that among the family members, the identity of an ex-executive carries a risk of stigmatisation, as any poor judgements of an executive who belongs to the family may be remembered for a long time by the other family members. These events can also cause feelings of guilt among the family members who themselves may question whether they have made the right decisions to promote the welfare of the family firm and whether their consequent actions have provided adequate support for the execution of the chosen strategies.

4.1.3. Identity as a family member

While family firm ownership as a family member is triggered through the inheritance of shares in a family firm, an identity as a family member has its roots in the family system and is (at least in the biological sense) irrevocable. In the data, the owners primarily discuss this identity with regard to how the identity of ownership was built through childhood experiences with parents or their behaviour vis-à-vis their immediate siblings with whom they serve on the board.

The close kinship with siblings who serve on the board is considered to influence the frequency and informality of the interaction when compared to the interaction with the non-family board members. Dialogue between the siblings is more frequent and less formal. In the context of a family firm, family identity is also viewed to provide continuity, both by family members and non-family board members and managers.

4.2. Rules and decision-making

In this section, we discuss the informal rules that guide the owners' decision-making when they adopt the identity of an owner. As we

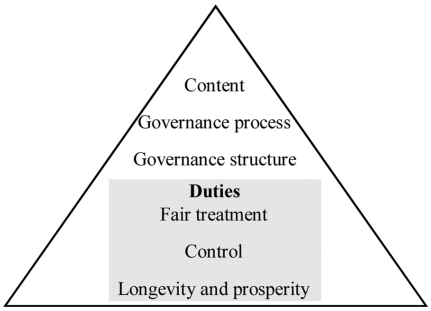

Fig. 2. Family firm owners' decision-making rules.

analysed the data, we identified two different categories of informal decision-making rules: principle-level, highly static rules that form the basis of family firm ownership, which we call *duties*; and less static rules that relate to the governance structure, decision-making processes and content of the decisions (Fig. 2).

4.2.1. Rules relating to the duties of the owners

The data suggests there are three principle-level decision-making rules that we label *duties*. The first two call for the owners to ensure that the family wealth is well cared for, that the family firm prospers over the long term and, if there are no exit aspirations, the firm can be handed down to the next generation – key family firm feature, recognised by several scholars (e.g. Chua et al., 1999; Miller & Le Breton-Miller, 2005). We label the first duty that relates to the long-term success of the family assets **the duty of longevity and prosperity**, and suggest that it forms the basis for the decision-making of the owners in a family firm's strategic renewal:

> *It is our duty to take care of the wealth that the father of our grandmother created. It is our responsibility not to waste it, not to misuse it […] as the wealth was created through entrepreneurship and, where we consider that there is a possibility to continue to do good business under our ownership, we do it.*
> (An owner, Company 1)

We recognise two important behaviours that relate to the duty of prosperity and longevity. First, the data suggests that it calls for the owners to vigilantly monitor the long-term prospects of a firm. If the long-term sustainability of a firm is threatened, it can prompt the owners, as guardians of family heritage, to initiate action before non-family board members and managers request radical change:

> *Those decisions that have turned out to be highly important and that typically deal with the long-term direction of the firm, including giving up some businesses – they very often require the owners to take a firm view in order for the board to dare to act.* (An owner, Company 1)

Hence, while many studies suggest that family firms are more risk-averse than non-family firms (see e.g. Hiebl, 2013) or that they may conceptualise risk in a different way than non-family firms (see e.g. Gomez-Mejia et al., 2007), we suggest that the duty of longevity and prosperity can play a key role when the family firm owners decide to trigger strategic renewal, which is inherently a risky endeavour (Huff et al., 1992). They prompt the owners to attempt to break the firm dependency path when it is not believed it will deliver prosperity over the long term.

In addition, the duty of prosperity and longevity is reflected in the owners' timeframe, which can be different to that of non-family members:

> *I think the owners' horizon is 5–20 years ahead and,* [thinking of that timeframe], *if you suddenly give up a principle you have had or close a site that has accumulated competence and tacit knowledge for a long time, is it wise?* (An owner, Company 1)

Second, the data suggests that the owners can represent the family firm in a symbolic way. This symbolic value of the owners was discussed by Sievinen et al. (2020) and relates to the events in which owners are recognised to be able to represent the firm in a way that is not considered possible for a non-family member. As Sievinen et al. (2020) have shown, the symbolic actions of owners can play a major role in renewals as they can provide necessary stability in the midst of disruptive renewal actions. The data suggests that this is not only attributable to the owners' status as shareholders and the resulting ultimate control over the organisational agenda. Instead, we interpret it to stem from the owners' long (often life-long) tenure with the firm and recognition of their duty regarding prosperity and longevity. As Le Breton-Miller and Miller (2006) and Miller and Le Breton-Miller (2005) observed, the owners of a family firm have a pronounced interest in building up social capital and long-term relationships with key stakeholders for the benefit of future generations. Family firm owners therefore have both the discretion and the incentive to fulfil commitments (Ward, 2004).

> *An owner participating a very important meeting with a key supplier or a really long-term customer – whenever you need somebody who is a long-term symbol for the firm.* (An owner, Company 1)
> *[Our key principle is] keeping our word: it is totally uncompromisable for us.* (An owner, Company 1)

Apart from the underlying motivation to ensure the firm's success in the long term, the family firm decision-making is also characterised by the duty we label **the duty of control**, which deals with the desire to retain control in the family over generations. Our data reveals behaviour that relates to this rule. First, the owners exercise their shareholder rights in the appointment of directors. Having reached a stage when none of the main owners are serving in operational roles any longer, the family control in both case companies is primarily exercised through the board. In both companies, two owners serve on the board.

Second, the data indicates that the owners serving on the board are expected to represent the owners' collective views in matters that the owners consider belong to the 'owners' agenda'. This agenda defines what decisions the owners wish to steer. In a firm with broader ownership, some of these decisions (about long-term targets, the appointment of key external advisors or making major decisions on business portfolio) would typically be decided by the board as a coalition, but in both the companies in this study, the owners serving on the board are expected to provide the non-family board members with a proxy for all the owners' desires regarding such matters.

> *You need to drive all the shareholders' interests and you need to weigh up whether a decision is in line with them. So, it is of course difficult to be a board member and an owner. You need to postpone your* [initial response] *and do an additional round of thinking about what Owners A, B, C and D would think.* (An owner, Company 2)
> *If in the board meeting somebody, either a non-family board member or a family member, feels that a topic belongs to the owners' agenda, then we take the topic out from the board agenda and bring* [the topic] *back* [to the agenda after the family has discussed it]. (An owner, Company 1)

The third behaviour that we observed relating to the duty of preserving family control is the owners' role in sharing narratives on the family firm heritage. These narratives include stories about the transfer of the family firm ownership from one generation to the next and on the past successes, as well as failures that have been overcome by the past or current generations. In the data the owners' narratives reflect the importance of the event of receiving the shares. It marks 'passing on the flame' and locks the new owners into the generational chain that is expected to take care of the family firm's assets and heritage. The data

suggests that this narrative has two dimensions: past and future. In both companies the owners refer to the past family members' roles as visionaries and mentors and to the role of the past family patriarchs in building up new industrial communities in post-war, largely rural Finland. Overcoming economically tough times through decisive moves to refocus the business by building up new ventures also forms a key part of these narratives. The other dimension of the narrative in Company 1 points towards the future and relates to the current owners being responsible for preparing the next generation so that they are ready to assume the ownership responsibility when the time comes.

Family firms can have greater motivation to treat their employees well in terms of benefits, training and attempting to avoid redundancies, and they can have lower employee turnover than non-family firms (see, for example, Le Breton-Miller & Miller, 2006; Miller & Lee, 2001; Miller & Le Breton-Miller, 2003). The third duty-level rule we recognise relates to the way that the employees are treated:

> *We employ many people in* [the location of the largest site] *and the other sites we have, and I feel that the owner must develop the firm and ensure that it has a strategy that guarantees its competitiveness in all market conditions so that we can continue to employ all these people.* (An owner, Company 2)

The data shows that the duty of prosperity and longevity and what we label **the duty of fairness** are often enacted jointly as the decisions made about personnel are made as part of an attempted strategic renewal. In the data, these situations include releasing a long-term CEO to early retirement in Company 1 and executing reductions in the headcount in both companies. Radical measures are taken based on the duty of longevity and prosperity, but the owners demand them to be executed in line with the duty of fairness:

> *Going through the* [proposal on an early retirement] *with the serving CEO is always tough. But we have quite a good process for that. Over the years we have had quite a few of these early retirements. And the most important thing is that nobody loses face and that it is done in a good spirit, in mutual agreement and in a respectful way.* (An owner, Company 1)
> *The values are clear in the sense that people are treated in a fair way, not meaning that they receive overly large redundancy packages but that people are treated with respect and that gratefulness for their past achievements is shown* […] *and, on the other hand, the packages are fair and* [the owners] *are not stingy with regard to them.* (A non-family board member, Company 1)

Apart from letting senior-level people go, a common action when attempting to rejuvenate the firm (see e.g. Daily & Dalton, 1995; Grinyer, Mayes, & McKiernan, 1988; Huff et al., 1992), the renewal strategies in both companies also called for wider reductions in staff numbers. The data suggests that in Company 1 this widened the scope when the duty of fairness was applied. In the past, the duty of fairness had been applied for favouring long-term tenures and good retirement benefits. However, once the renewal was triggered, the rule was also actively applied to staff reductions. While the rule of ensuring longevity and prosperity provided the rationale for the redundancies, the duty of fairness steered how they were done in order to treat long-term employees with respect:

> *It is not always about the content but it deals a lot with how things are done: the process, the best practices and the ways of working of our company in different situations. In redundancy situations, for example, I pay a lot of attention to how they are done and what the criteria are.* (An owner, Company 2)

The data also suggests that the owners do not shy away from enacting the duty of fairness outside the boardroom when deemed necessary:

> *Our CEO knew that we had certain principles that relate to the employees.* […] *As he knew this, we agreed that prior to the reduction proposal* [being brought to the board], *we would discuss whether there was anything that would break our rules.* […] *I did not tell him what to do,* [I told him about the principles]. (An owner, Company 1)
> *I have always been horrified to see how some of our competitors make long-term employees redundant just before they reach their retirement age.* […] *I sidestepped the board when* [a business unit] *considered letting some people to go* […] *I don't think you treat long-term employees like that. I didn't say that in the board meeting. I just told* [the CEO] *what I think.* (An owner, Company 2)

4.2.2. Rules relating to the structure of governance

The next category of the rules that we identify relates to the structural aspects of governance. It deals with questions about the role of the board in decision-making, the composition of the board and the characteristics of the board members. First, our data suggests a rule that calls for the owners to not exercise influence outside the shareholders' meeting and the boardroom in an opaque way. As Anderson and Reeb (2004) and Le Breton-Miller and Miller (2006) observed, ownership and board membership must be designed so that the family conflicts or personal agendas of family members do not interfere with the business and that there are non-family board members who have the guts to speak up. In the data, this **rule of orderly governance** is highlighted by the owners and it is also a rule that regulates the sequence of the renewal actions. In both companies, the renewal strategies were triggered by appointing a new non-family member as the chair of the board in order to respect the command lines between the owners, the board and the management:

> *Based on our […] experience, we first changed the chair of the board. And it was clear to me from the very beginning that the next step would be to change the CEO.* (An owner, Company 1)
> *We are not very hierarchical in our family and I do not just say 'This is what father wants and that's it!'* [Instead], *we try to work through the board of directors and not bang our fists on the table and tell staff what needs to be done.* (An owner, Company 1)

After the appointment of new chairs, the strategic renewal process, including the change of the CEO being among the initial steps, could be steered by the board that guided the actions of management.

We also observe that there are rules that relate to the family board member to non-family board member ratio. We categorise these as belonging to what we label **the rule of power balance**. In both companies there is more than one family member serving on the board, but the non-family board members' numbers outweigh the number of family members and both boards are chaired by a non-family board member. While we do not suggest that the ratio of non-family board members versus family board members operates through the power of the majority (owners can always change the board members), it can signal that the owners do not want a board that acts as a rubber stamp for the owners' wishes but that they want a real decision-making forum that openly debates matters prior to making decisions. Also, in Company 1 two family members always serve on the board in order to make sure that the owners have a shared understanding of board discussion and decisions.

While being able to access an adequate talent pool is important to any firm, the scholars suggest that family firms may suffer from difficulties in attracting outside top talent due to the expectations that family managers receive preferential treatment (Cater & Schwab, 2008) or other perceived family firm attributes that are considered to make family firms less attractive employers to non-family members (Ceja & Tapies, 2009). The second rule relating the structure of governance relates to the owners' roles in ensuring that the best possible talent leads the company. We label it **the rule on talent**. The chair and the other board members are considered important resources for extending the

competence base of the firm. In Company 1, the new chair is very seasoned in technology company transitions, whereas in Company 2 the new chair is a highly experienced finance executive. Both profiles reflect what is considered a key competence for carrying out a successful strategic renewal:

> *My most important role as an owner and as a chair of the family holding company is to ensure that we have best possible chairs of the board in the firms the family owns.* (Owner, Company 1)

The importance of the rule on talent is also reflected in the influence that the owners exercise in the appointment of the CEOs. While in both companies the chair led the recruitment process and the board made the final decision, the owners played a major role both inside and outside the board in the decision-making. Hence, we argue that while the appointment of the CEO is formally the decision of the board as a coalition, it can be informally controlled by the owners. A non-family member chair must facilitate a board decision where both family members serving on the board and non-family board members are aligned on a decision.

4.2.3. Rules related to the decision-making processes of the board

The third set of rules relates to the decision-making processes on the board. The first processual rule relates to the owners' role in the boardroom in ensuring that non-family board members' are given an opportunity to express their opinions freely, and we call it **the rule of speaking out**. While a non-family member chair plays a key role in ensuring that the board discussions are open and frank, the data suggests that the owners also regulate theirbehaviour in order to facilitate an atmosphere where all board members can contribute. For example, an owner stated that he only expresses his views on the key strategic matters after the non-family board members have expressed their opinions. He fears that if the board members hear that the owner and the chair have a strong shared view, the discussion will die out prematurely:

> *My intention is that when the board is debating something, I let the others talk first so that the other people* [in the board meeting] *do not have the feeling that I dictate what is decided.* (An owner, Company 1)

The next process-related rule that emerges from the data is linked to the rule on orderly governance but specifically deals with respecting the relationship between the chair and the CEO, both inside and outside the boardroom. In both companies these positions are held by non-family members and the owners repeatedly emphasise the importance of the chair and the CEO developing a trustful relationship so that the owners do not intrude. These behaviours reflect **the rule of the line of command** that suggests that the owners should not bypass the chair by giving direct instructions to the CEO in the boardroom. The owners feel that this would make it unclear to whom the CEO reports and undermines the authority of the chair. Also, while the owners consider sharing information on the firm's heritage and values important, they emphasise the importance of the chair always being aware of any direct communications between an owner and the CEO outside the boardroom:

> *If the owner tells the CEO what to do in the board meeting, it creates a feeling that non-family board members are not needed.* (An owner, Company 1)
> *If I* [am in direct contact with the CEO] *I keep the chair up to date about it, at the very least by cc:ing him into an e-mail* […] *If you are an owner who serves on the board, you need to go through the chair.* (An owner, Company 2)

On the other hand, both the owners and non-family members recognised the benefits that the owners' direct contact with the CEO can create. Owners with a life-long tenure with the firm can provide a non-family member CEO with important information on the industry, the firm and its long-term employees; they can share knowledge on the firm's heritage; and they can inform the CEO about the boundaries that the owners may have with regard to new strategic directions:

> *After the* [new CEO and the chair] *have had time to establish their relationship, the CEOs find it good that the owner has contact not only with the new CEO but also with the rest of management team. And that he or she can and dares to tell others about the owners' ownership philosophy and so on.* (An owner, Company 1)

The rule on the owners not disagreeing in front of the board on topics that belong to the 'owners' agenda', **the rule of harmony,** emerges strongly from the data. While the methods used to ensure it vary from the owners taking a time-out outside the board meeting to an owner resigning from the board when he or she finds it difficult to agree on a critical topic with the other owners or the board, this rule is considered important by both the owners and the non-family board members:

> *Regarding how the family* [agrees or disagrees] *between themselves, there can be different views, but regarding the firm, the owners have one voice.* (A non-family board member, Company 1)

The owners, as well as some non-family board members, also express a rule that relates to the owners' relationships vis-à-vis the employees of the company. This **rule of visibility** is related to the special value that family firm owners have as representatives of their firm towards different stakeholders. As Sievinen et al. (2020) observe, this special value enables family firm owners – if they choose to be visible despite not being involved in the daily management of the firm – to take up symbolic actions such as communicating how the new strategic direction is linked to the past heritage of the firm, giving the employees an inspirational talk at troubled times, or just showing an interest in the employees' well-being.

> *It is nice to see it when one of the owners walks down the corridors of the firm and, if an employee walks past, be it in the site in Finland or in the UK, the owners greet him or her with a 'Nice to see you!'* […] *and the owners really know the person and asks 'How are your kids?' or says 'Give my greetings to your wife!'* (A non-family board member, Company 1)

The Finnish-language concept "owners with face" came up in our data. It is often used in the context of family-owned firms in contrast to the "invisible shareholders" in firms with a more dispersed ownership base and illustrates how the visibility of the owners is perceived to be linked to higher accountability.

> *Some 10–15 years ago I thought that the best I can do is to build such a governance structure that I become unnecessary. But I have now concluded that in a family firm, the existence and visibility of an owner – a real person that holds to certain principles and has a certain way of doing decisions […] – is very important.* (An owner, Company 1)

However, while the rule of visibility calls for the owners to be active, it also requires this role to be enacted so that the authority of non-family managers is not undermined. The owners' visibility should support the CEO in leading the change, not questioning their role. This also relates to rules of orderly governance and rule of line of command. The non-family board members, who may prioritise the effective use of their time over this rule, can be challenged by the owners who consider the visibility of the decision-makers at the sites to be more important.

> *When we* [decided in the board] *last year that we will have fewer meetings at the main site of the firm, one of the owners reacted* [afterwards] *and said that we should spend more time there.* (A non-family member chair, Company 2).

4.2.4. Rules relating to the content of the decisions

The third set of rules we observed deals with the content of decision-making. The data suggests that the rules that relate to family goals can play a fundamental role in defining the content of a renewal strategy.

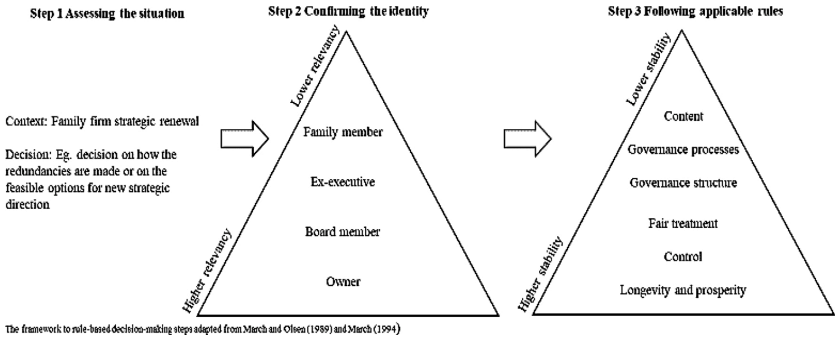

Fig. 3. The rule-based decision-making of family firm owners in the context of a family firm renewal.

The first rule we observe deals with the financial and non-financial goals of the owners, and we call it **the rule of value creation**. It defines what the family seeks to gain from the business that they own. The owners of our two case companies, while all emphasising the importance of long-term prosperity, had different preferences in terms of value creation. In Company 1, the owners emphasised prioritising growth over dividends, and in Company 2, the owners preferred strategies that would restore the investment capability of a firm and ultimately return some of the capital invested by the owners over the years. The data suggests that these rules played a key role in the selection of renewal strategies. The data also provides evidence that clarity on the rules that relate to the goals is necessary for strategic renewal to be triggered; as the goals set the targets against which the performance of the business is measured, they determine whether the performance is deemed satisfactory or not and hence whether or not there is a need to consider radical renewal.

Several family firm scholars have noted that family firms are often also characterised by a strong commitment to a craft that, over time, has become important to family members (Donckels & Frohlich, 1991; Harris & Martinez, 1994; Le Breton-Miller & Miller, 2006). Our data shows that these commitments can form rules that influence renewal strategies. In Company 1 the owners highlighted the lighting control domain as an attractive market, while in Company 2 the owners defined wood-related businesses as what the firm should continue to focus on. Particularly in Company 1, where the rule on the business focus was amended as the lighting control business was defined as a new key strategic business, the owners' preferences played a key role. While the proposal to do this came from the new CEO, an owner remembers having already expressed his view on the matter to the CEO when interviewing him for the position. The owners also expressed their strong support for the CEO's proposal when it was being presented to the board. We interpret the data to indicate that the rules on the goals form important boundaries for the targets of renewal and selection of strategies. In Company 2, the owners were firmly committed to the heritage of the firm and retaining the focus on businesses related to wood.

As Zucker (1977) proposed, history influences the cognition of organisational actors, and programs of action that have been adopted in the past are more likely to be tried again (March & Olsen, 1989; Ocasio, 1999). A third rule that we recognise to belong to the rules on the content of the decisions relates to the tools needed to develop the business, and we call this rule **the rule of strategies**. The strategies can include M&A, joint ventures and setting up new ventures. In both companies they reflect how the family has developed the business over time. In Company 1 there was a strong tradition of transforming the business every few decades by giving up later-generation businesses and developing emerging ones. This approach was frequently highlighted by the owners:

> *I certainly communicated strongly* [to the new CEO] *that our company has never hesitated in making major changes. We used to be among the largest radio and TV manufacturers in Finland but we dropped the business. And we have made other changes as well.* (An owner, Company 1)

The data also suggests that even though M&A had been among the tools used to develop the firm in the past, among the non-family actors there was a deeply ingrained assumption that the owners lacked an appetite for it. Despite being deemed as a redundant view by the owners, they felt that non-family actors continued to believe that the owners were averse to acquisitions. The data suggests that the renewal strategies suggested by the management continued to highlight partnerships rather than acquisitions:

> *We may have had an idea to* [do a joint venture] *with another company that failed some 20 years ago, but then my uncle may have said that he would rather buy the other company than merge, and then this becomes a rule that our family always wants to own* 100 %. *As owners, we have said for decades that we have a war chest if there are interesting acquisitions but […] and then it has become a rule* [among non-family members] *that yes, our family says we want to make acquisitions, but in reality we* [the owners] *just want to play it safe.*
> (An owner, Company 1)

In turn, Company 2 had carried out acquisitions, but due to their lacklustre performance compared to the businesses developed as greenfield projects, their rationale was questioned. However, different kinds of partnerships not actively used previously were considered part of the renewal strategies.

The data also reveals that, based on their long tenure with the firm, the owners have a set of beliefs that relates to what are considered the key drivers of the business, which form **the rule on key drivers of business**. These deal with the assumptions about the sources of value creation and competitive advantage. In Company 1, the owners had believed that synergies existed between the two business domains of the firm for a long time. However, it had been difficult to measure these synergies. The analysis of the new CEO showed that the firm had not been able to materialise these synergies and, going forward, the firm should run the businesses independently from each other rather than seek synergies. While a disappointment, particularly for the owner who himself had served as a CEO in Company 1, the owners accepted the proposal of the new CEO and the rule was accordingly adjusted. In Company 2, running the business as fully integrated and controlling the production chain formed an important rule. Hence, the decision to sell the energy plants in order to strengthen the balance sheet required careful contemplation from the owners who did not find it easy to agree on the proposed strategy. However, in both companies these rule

changes were ultimately accepted and the renewal proceeded.

5. Key findings – the rule-based decision-making of family firm owners

As noted by several scholars (see e.g. Huse, 1998: 219; Huse, 2005: 66; Huse & Zattoni, 2008: 72; Westphal & Zajac, 2013: 650), the actual board behaviour and the social context of enacting governance roles is scarcely studied and merits further research. This research set out to find out how the owners of a family firm exercise their influence in family firm decision-making and how it influences the renewal. In line with March and Olsen (1989) and March (1994), we propose that the identity of family firm owners is connected to a rule structure. The picture below depicts the relationships between the key concepts of this study. Our data suggests that as suggested by IAT, the owners' decision-making can be conceptualised as a process where a decision-maker first assesses the situation and the exact decision at hand (1). This is then followed by a question of identity to be enacted (2) and the rules to be followed in the decision-making (3). Our findings within this framework (Fig. 3) allow us to make several contributions both to theory and practice. We discuss them below.

First, we suggest than an identity as an owner dominates family firm owners' decision-making: By our micro-level examination of the behaviour of owners serving on the board of a family firm, we show that while family firm owners assume multiple identities, their identity as an owner dominates when it comes to family firm decision-making. Our data suggests that other *contextually relevant* identities (Ashforth & Johnson, 2001: 32; Hillman et al., 2008: 443) – those of a board member and an ex-executive – can also be enacted by the owners, but when adopted, they build on their core identity of an owner.

While we do not suggest that this is the case in all family firms and with regard to all firm-related decisions, we interpret our data as indicating that, because of the dominance of the owner identity, it can be difficult for an owner serving on the board of a family firm to push aside their identity as an owner. This can even be the case when they wish to enact a different role. However, our data suggests that an ability to enact an ex-executive identity, even when in conjunction with an owner identity, can increase an owners' response flexibility (Hillman et al., 2008: 443; Thoits, 1983) as it enables the owner to effectively take up an advice role towards non-family management. The fact that the owners themselves as well as the non-family board members predominantly view the family members serving on the board to represent the owners can have important implications on board dynamics. As Hillman et al. (2008: 452) observe, differences between the identification of the board members lead to differences that *'shape how each director participates, as well as how they interact with one another*'. We propose that the owners' predominant identification as owners can ease the board decision-making as the family members serving on the board can communicate the owners' view on the matters that are considered to belong to the owners' discretion forthe board. As strategic renewal is an important and risky organisational endeavour, such topics may be more prevalent on the board agenda during the renewal than at less disruptive times. On the other hand, unless carefully managed both by the owners themselves and the chair, the owners enacting their owners' identity strongly at board meetings can dampen the board debate in cases where the owners express their opinions too early in the discussion.

Second, we add to the studies on family firm renewals (Cater & Schwab, 2008; Salvato et al., 2010; Sievinen et al., 2020) by showing how the rules influence decision-making in strategic renewal. We argue that the owners' rules can sustain family traditions and transfer experience over generations, as well as depersonalise the use of power. As March and Olsen (1989: 24) observed, rules relate to the enactment of an identity although rules and their applicability can be ambiguous, as individuals have multiple identities. Contrary to the interest-based frameworks, rules do not only reflect the interests of current decision-makers but also reflect experience accumulated over time (Ocasio, 1999: 386). We propose that the rules applied to decision-making by family firm owners reflect the experiences that family members have accumulated over time as owners, as well as reflecting larger institutional pressures regarding what is enforced through regulation or considered good governance. We suggest that in a family firm context, informal rules are shaped by the personal experiences of the past and the current owners, and once these experiences are institutionalised as rules, they facilitate learning across generations in family firms. Rules on how to behave as an owner are also accessible for the new generation of owners with no direct personal experience. While to a certain extent rules are context-sensitive and can change, we argue that they provide consistency in family firm owners' responses over time and can help to sustain family experiences and traditions.

Based on our data, we also suggest that the rules followed by family firm owners in their decision-making depersonalise family firm owners' experiences. The rules create built-in stability that goes beyond the personalities and desires of individual family members, or even those of a generation, thus depersonalising the use of power of family members. This can create important dynamics in the context of a strategic renewal. While Salvato et al. (2010: 335) identified the role of a strong family representative in driving family firm renewal as a champion that '*facilitates change through continuity*', we argue that, through rules, family firm governance has an in-built mechanism that can detach the decision-making from individuals. This relates to the finding of Sievinen et al. (2020: 14) that proposes that '*family firm owners can set up governance structures and processes that are not reliant on the skills or personalities of a single individual and hence can be institutionalised*'. We contribute to this by suggesting that rules followed by the owners form an underlying motive for setting up these processes that can then be used to enforce the adherence to the rule.

However, as Ocasio (1999: 386) observed, reliance on rules does not rule out behaviour based on personal interests and political action. While the rules may hide an individuals' motives and reduce opportunity for their critical scrutiny, the rules also define the parameters for the game of potentially competing or conflicting interests, Ocasio (1999: 386) notes. The extant research on family firm renewals has shed little light on the ways that family conflicts can be avoided or alleviated when a family firm need to review its business. Our data provides evidence that, in a family firm context, the informal rules that relate to governance processes can form an important mechanism for avoiding and solving interest conflicts between individuals or owner groups. Rules such as always having more than one of the owners serving on the board or the owners having an informal obligation to solve disagreements on key strategic matters outside board meetings can form such mechanisms. Several case-based studies on family firm renewals report on rather one-off responses to address the challenges experienced by the family and the family firm. These include an individual family member playing a key role in driving the family firm renewal forward in spite of difficulties (Salvato et al., 2010: 335), buying out the shares from other siblings (Cater & Schwab, 2008: 36) or by replacing the family representatives on the board with non-family members (Canterino et al., 2013: 71). Instead, we propose that rules can institutionalise the conflict-solving into principles that can last across the generations and are not dependent on single individuals or relationships between the representatives of a generation. We consider this an important and motivating finding for family firm owners interested in developing the change capabilities of their firm further.

Third, this study theorises the owners' influence on the dynamics of strategic renewal. We build on the findings of dynamics of strategic renewals in general (Huff et al., 1992) and family firm strategic renewals specifically (Bégin et al., 2010; Canterino et al., 2013; Sievinen et al., 2020) as we propose that the rules form a hierarchy and they can both facilitate and hinder renewal. As Zhou (1993: 1136) observed, organisational changes are typically embodied in a system of rules, and hence rule dynamics can play a key role in directing the change in the trajectory of a firm. Ocasio (1999: 385–7) recognises that rules can both

hinder change or facilitate it by offering ready prescriptions on how to act and providing an opportunity to channel organisational dynamics into appropriate channels. We build on the findings of Sievinen et al. (2019, 2020) that recognised that, thanks to the owners' in-depth understanding of the firm and the owners being an ultimate authority in defining the acceptable performance, the need for strategic renewal can initially be recognised by the owners rather than by non-family board members or management. This, coupled with the owners' control over the organisational agenda, can trigger the owners proposing the renewal process (Sievinen et al., 2019, 2020) as '*non-family board members would not take the initiative in triggering the change unless the owners clearly communicated their appetite for radical changes*' (Sievinen et al., 2019: 16). We suggest a novel rules-based perspective on this as we propose that owners are willing to consider a strategic renewal when the changed contingencies threaten the owners' ability to adhere to the rules. As a result, the rules that relate to organisational routines and conventions (March & Olsen, 1989: 22) can also trigger family firms, which are often portrayed as more risk averse than non-family firms (Hiebl, 2013), to take radical measures. In both of our case companies the owners accepted the risky endeavour of trying to break an undesirable dependency path as they adhered to their duties on longevity, prosperity and control and sought to ensure that the family firm remains successful in the long term.

In the midst of disruptive renewal, rules and routines that are not dependent on individual actors (March & Olsen, 1989: 22) can provide the decision-makers with a sense of order. Based on our data, we propose that once there is a decision to attempt a strategic renewal, the owners are likely to support renewal strategies that are aligned with the owners' rules. The data also suggests that the renewal strategies need to be executed in a way that is aligned with the owners' rules. In particular, the duty of fairness plays a key role and our data shows how the owners do not shy away having an influence both inside and outside the boardroom in order to ensure that non-family management also adheres to this rule. Similarly, based on the rule on talent, the owners participate actively, beyond the activity of the role of a mere board member, to ensure that a family firm attracts the new talent deemed necessary for a successful renewal.

However, if the response to the new contingencies calls for a profound change in rules – as can be expected in the case strategic renewal that directs organisational energies towards new but uncertain paths (Huff et al., 1992: 61) and modifies and replaces the current business model (Schmitt et al., 2016: 362) – we argue that the changes need to be acceptable for the owners. This is not only because the owners have ultimate decision-making authority but also because it facilitates the owners committing to the new strategic vision, a key element for a successful family firm renewal (Canterino et al., 2013; Sievinen et al., 2020). As Canterino et al. (2013: 78) observe, the renewal of a family firm must be '*perceived as something that the company founders would have done*'. In our data, the decision to refocus the business on lighting intelligence in Company 1 and to sell the key energy plants in Company 2 represent decisions that required a change in the owners' rules. We consider these changes related to the rules on the content of the business as the core of the renewal process when viewed from an IAT perspective. We propose that if the owners decline to alter the rules when contingencies change and the strategy no longer fits a new environment, the owners' rules can hinder change.

As March and Olsen (1989: 23) observe, '*a broader theoretical examination of normative order would consider the relations among the norms, the significance of ambiguity and inconsistency and the transformation of normative structures*'. We propose that, in the context of a strategic renewal, some rules may be more likely to be modified or changed than others and in this way the rules form a hierarchy. We consider this an important new insight into the IAT approach when applied to understanding organisational change. Our data suggests that the rules that relate to the content of business strategies can be more dynamic than those that deal with the duties or governance structure and processes. While our research design does not allow us to draw conclusions on the underlying reasons and more research on this is needed, we suggest that this may be due to three factors. First, the duties – particularly the duties on prosperity longevity, prosperity and control – go deep into the *raison d'être* of a family firm and are likely to not be questioned unless a family considers exiting the business. Second, we propose that non-family management and non-family board members can challenge content-related rules more openly than rules that deal with governance structure and process (i.e. matters that belong to the decision-making authority of the ownership system). Third, the relevancy of content-related rules is continuously tested by the dynamic environment. If the content rules cease to be aligned with the internal or external demands, the performance of the firm is likely to have the rules exposed to criticism beyond the ownership system.

Our findings also build on the work of Huff et al. (1992) and Sievinen et al. (2020), who recognised the role of the continuous interaction of change and inertia in strategic renewal, with Huff et al. providing the theoretical framework and Sievinen et al. (2019) applying it in the empirical context of a family firm renewal. Sievinen et al. (2020) proposed that owners can facilitate change by enacting stress-inducing behaviour at the early stage of renewal so as to trigger and promote the renewal process and by taking up inertia-inducing actions when the new strategy is being implemented so as to create organisational commitment to it. We propose that this phenomenon can be viewed from the perspective of rules. Our data suggests that, depending on the stage of the renewal, the same rule can either push change (i.e. induce stress) or create commitment (i.e. induce inertia) (Huff et al., 1992: 56–59). For example, when the renewal is being triggered, the owners apply the duty of longevity and prosperity as a basis for triggering the change, whereas at the later stage of the renewal, the owners apply the same rule in an inertia-inducing way by representing the family firm in a symbolic way and showing commitment to the new strategic direction. Similarly, the data shows that the duty of fairness, prior to the renewal in Company 1, was interpreted in an inertia-inducing way to retain the employees through good benefits and long tenures, whereas in the midst of the renewal, it laid out the stress-inducing principles for how the redundancies were being done in a way that was considered fair.

Hence, we provide a rules-based perspective on the findings of Sievinen et al. (2020) as we argue that none of the rules applied by the owners are stress- or inertia-inducing *per se* but their influence is dependent on the timing and how the rules are translated into behaviour. This, coupled with our proposal that the owners can both facilitate and hinder change subject to their readiness to alter the rules when contingencies change, provides a more nuanced view on the owners' roles in a family firm renewal than depicted by the extant literature that portrays the owners more strictly either as a source of change and entrepreneurial orientation (e.g. Bégin et al., 2010: Salvato et al., 2010) or complacency and resistance for change (e.g. Canterino et al., 2013).

6. Limitations

Our decision to focus on two Finnish companies was driven by our research interest that we believed to be best served by gaining access to highly granular, micro-level data. As we describe in *3.1 Research design and data collection* and *3.2. Case companies*, both companies share the key contextual elements of ownership structure and life cycle: they are both later-generation family firms where the main owners participate though serving on the board and both firms are attempting a strategic renewal.

While we do not consider our findings to be fully idiosyncratic, and hence inapplicable to other domains (Gioia et al., 2013), but to have relevancy for other later-generation family firms where the owners serve on the board, we recognise the limitations created by our research approach. Both companies operate within the Finnish governance context and hence share governance processes based on the Finnish corporate law and governance tradition. As Sinani, Stafsudd, Thomsen, Edling, and Randøy (2008) observe, trust, information diffusion and

reputation mechanisms play a key role in Scandinavian (Denmark, Norway and Sweden) corporate governance and we argue that the Finnish corporate governance tradition is also characterised by these features. Our findings may not be applicable to significantly different governance contexts. Our research design also creates other limitations. Our results suggest that informal rules can play a significant role in family firm owners' decision-making when a family firm is attempting a strategic renewal. However, our research approach does not allow us to make conclusions on the relative importance of formal and informal rules or on how the formal and informal rules interact, replace or hinder the use of each other.

7. Conclusions, future research avenues and practical implications

'*The study of organizational rules can provide insight into the mechanisms underlying stability and change in modern* organizations' observed Zhou (1999:1136). We followed this advice as we wanted to know how the owners of a family firm exercise their influence in family firm decision-making and this influences the family firm renewal. Our findings suggest that informal rules play a key role when family firm owners participate in the family firm decision-making. We show that the family firm owners primarily enact their owner identity when making family firm-related decisions and provide evidence on how the rules can help to sustain family traditions over time, transfer experience over generations and depersonalise family members' use of power. We suggest that some rules display higher stability than others, and that the rules are not change-hindering or -facilitating *per se* but their influence on the strategic renewal is contextual. However, by refusing to alter the rules they adhere to if the contingencies change and the rules are no longer fit for the new environment, the owners can impede change.

We believe that our study may offer insights and research areas outside the family firm domain. While there are important limitations to our study (see *6 Limitations*), we believe that our findings on the roles of identity and rule hierarchy can be used to analyse decision-making in other organisational coalitions, such as management teams or institutional investors. Also, while we chose IAT as our key theoretical framework, we believe that it could be valuable to study the intersection of rules and the propositions of SEW in family firm decision-making. A key argumentation of SEW is that family firm owners are loss-averse with regard risks related to SEW, even if this were to come at the price of higher performance risk (see for example Chrisman & Patel, 2012; Gomez-Mejia et al., 2007, 2010). As a result, family firms can be averse to venturing risks that are designed to improve but can cause greater variance in performance (Gomez-Mejia et al., 2007). Our study delineates in many ways the key aspects of SEW. Strategic renewal whose outcome is uncertain forms a venturing risk, both approaches recognise the importance of social identity and the rules that relate to control, and continuity identified by us resemble in many ways the components suggested to form the essence of SEW (see e.g. Debicki, Kellermanns, Chrisman, Pearson, & Spencer, 2016).

We are not aware of any other empirical studies on family firm governance using the concepts of rule-based decision-making. A limitation of this study – the focus on a single country – opens up an opportunity to study the differences between different governance contexts and cultures on the role of rules in decision-making. Also, in our data the two companies have very similar rules, particularly when it comes to rules with higher stability. Our research approach does not allow us to draw conclusions on the underlying reasons for this. While we speculate that institutional pressures and Finnish governance culture play a key role on this, more research on this could help to gain new insights into the sources of decision-making rules and their potential impact on the differences between the change capabilities of family firms. Also, as observed by Zhou (1993), there has been a limited amount of research on how organisational rules evolve over time. We suggest that longitudinal studies on how and why rules evolve over time could provide interesting new insights to help understand change and inertia in family firms.

We believe that our study also offers important insights for practitioners. It calls for owners and family firm chairs to be attentive to the potential overuse of the owners' identity in the boardroom. It highlights the importance of the ability of non-family board members and management to challenge the rules applied by the owners, particularly when contingencies change and a radical rejuvenation of the firm's strategy is necessary. Our study also provides evidence that when a firm is attempting a strategic renewal, a non-family member chair can play an important role in mediating between the argumentation of the non-family board members, the management and the owners, particularly if the renewal calls for challenging deeply ingrained decision-making rules that may not follow the pure logic of consequence.

Author statement

An author of this article serves on the board of directors of one of a case companies discussed in this research. To ensure the impartial perspective necessary for informed theorising, all the data collected, its analysis and suggested interpretations by this writer were carefully reviewed by the two other writers.

Declaration of Competing Interest

The authors report no declarations of interest.

Appendix A

Table A1
Interviews.

Date	Person interviewed	No of transcripted pages
2.6.2017	An owner, Company 1	18
29.6.2017	An owner 1, Company 1	18
18.7.2017	A non-family board member, Company 1	22
24.8.2017	An owner 2, a member of the board, Company 1	23
25.8.2017	A TMT member, CFO, Secretary of the Board, Company 1	22
31.8.2017	A non-family board member, Company 1	24
4.9.2017	Chair of the Board, Company 1	19
18.9.2017	A TMT member, responsible for a business unit, Company 1	21
20.9.2017	An ex-CEO, Company 1	16
25.9.2017	A TMT member, responsible for a business unit, Company 1	17
13.10.2017	A non-family board member, Company 1	17
16.10.2017	CEO, Company 1	15
27.8.2018	Chair of the Board, Company 2	17
28.8.2018	An owner 1, member of the board, Company 2	16
29.8.2018	An owner 2, Company 2	16
1.10.2018	Chair of the Board, Company 1	14
19.10.2018	CEO, Company 2	9
22.10.2018	An owner 1, Company 1	15
26.10.2018	CEO, Company 1	14
18.9.2019	An owner 2, Company 2	12
26.9.2019	An owner 1, Company 1	13
1.10.2019	An owner 2, member of the board, Company 2	13
4.10.2019	CEO, Company 2	9
16.10.2019	Chair of the Board, Company 2	11
23.10.2019	A non-family board member, Company 2	12
		Total 403 pages

Appendix B

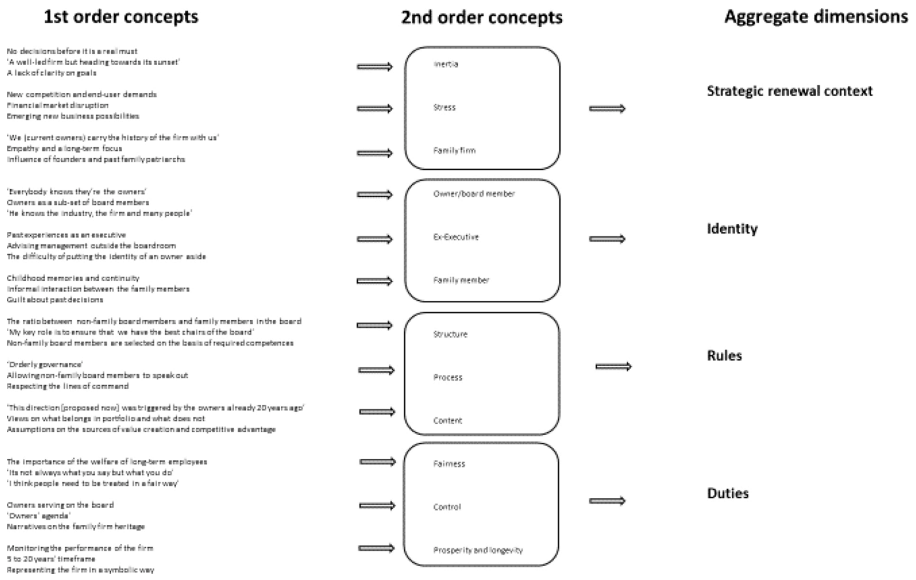

Fig. B1. Data structure.

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