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Conceptualising The Governing Ownership System In A Family Business Group

Tuuli Ikäheimonen, Marita Rautiainen, Sanjay Goel

Introduction

How can a family govern ownership in a complex family business group (hereafter FBG)? To study this question, we examine the ownership system in an FBG and explore the mechanisms of managing the boundaries between family and business systems for a better-governing family ownership. To increase understanding of the family business ownership system, it is important to understand how a family governs ownership and in what processes and methods the family is engaged when doing this. As a system, family business consists of three overlapping subsystems: family, ownership and business. The three-circle model presented by Tagiuri and Davis (1996), and developed further by Gersick et al. (1997), views family business as a complex system, where each subsystem has their own lifecycle and “*family companies mature through their lives from simple-owner-manager control to the more complex later-generation forms*” (Gersick et al., 1999, 288). Family firms have the possibility to develop via managing the size and scale of multiple businesses organised as FBGs, instead of scaling up a single business from small to large over multiple generations (Rautiainen, 2012; Rosa, Howarth & Discua-Cruz, 2014; Rosa & Pihkala, 2019). The businesses of business families thus evolve in a variety of ways over time and develop highly idiosyncratic FBGs, held together by a transgenerational, long-term vision for their future together.

Family business characteristics differentiate family businesses from other types of companies. Equally, characteristics like concentrated ownership, e.g., a family holds a large amount of voting power (e.g., Aguilera & Crespi-Cladera, 2012; Goel et al., 2012);

generational aspects (Gersick et al., 1999); duality of goals (simultaneous existence of financial and family-centric goals) (Zellweger et al., 2013; Parada et al., 2019); and the existence of both family and individual goals (Rautiainen, Pihkala & Ikävalko, 2010) also affect the necessary governance solutions (Goel, Ikäheimonen & Rautiainen., 2019).

There is vast literature on business groups which are defined as a collection of legally independent firms that are linked by multiple ties, i.e., transactional and contractual economic arrangements, ownership and social relationships (Granovetter, 1995; Khanna & Rivkin, 2001). FBGs, which are typical in Asia but are also found in most economies in Western countries (Morck, Wolfenzon & Yeung, 2005; Yiu et al., 2007), contain complex connections and multiple ties combined with family relations; and through these connections, family owners coordinate to achieve mutual objectives (Beckhard and Dyer, 1983; Yiu et al., 2007; Rautiainen et al., 2019). The FBG can be seen, like family businesses in general, as a system consisting of three sub-systems: the family, the business and ownership. However, an FBG with several companies along a group of different owners (family and non-family members) brings complexity to the whole system that must be manageable.

In family businesses, an essential factor is ownership, which connects the family and the business. In an FBG, ownership acts as a multi-layered thread that ties individual companies and owners to the group and defines its structure. Ownership plays a significant role in the family business context and affects governance structures in business groups (La Porta et al., 1999; Morck et al., 2005; Young et al., 2008). The way the family is organised, and proportionate to holdings, determines how ownership power is organised within the firm and among family owners (Olson et al., 2003; Gersick and Feliu, 2014). However, because the owners are also related to each other as family members, and are socialised to acknowledge moral obligations to each other, the distribution of ownership and power (and even the understanding of these concepts) among family owners is rarely as straightforward as the

proportional shareholding – creating a multi-layered and idiosyncratic notion of ownership and its rights and obligations among family owners.

The family's ownership can be manifested and made tangible in several ways, e.g., as direct governance control through family board members, indirect (and informal) control through members nominated by the family, the direct managerial control through family managers and through managers chosen by the family (Corbetta & Salvato, 2004; Silva & Majluf, 2008; Pieper, Klein & Jaskiewicz, 2008). As families expand and the number of owners increases in subsequent generations, cohesion at the ownership level becomes crucial (Ward, 1987), so the interaction between the family and ownership needs special attention. In FBGs, this need is emphasised, as mature FBGs contain both individuals in a family and several businesses in a group with different ownership logics and motives (Pihkala et al., 2019).

When the family business reaches a point where it includes several owners and many companies, the family needs to acknowledge the added complexity in a systemic sense and create mechanisms where multiple, and often varying, goals towards business and ownership can be discussed, and a degree of workable consensus can be achieved at the family owners' level. As a complex system containing several business and ownership structures, there is a need for deliberate strategic decisions to manage family, business and ownership levels coherently and simultaneously. Different governance solutions can bring clarity to the complexity, so a specifically tailored governance system that allows FBG particularities is crucial. Mature FBGs can exhibit a wide variation of governance systems in place, ensuring and enabling the use of ownership power over related companies and the group, and achieving a workable goal congruence among different owners (Goel et al., 2019).

In this study, we start our examination from the notion of ownership that connects and influences both business and family. From the governance point of view, the points where family ownership and business meet and influence each other are the most interesting ones and

are also central for the success of the family business, so the effective management and use of ownership becomes important for the success of the family business. This study presents a new concept of “*governing ownership*” to describe the intersection of ownership and governance subsystems as distinct from family and business governance, and a governance system that provides the organising framework so that both the family and business goals can be mutually acknowledged and pursued.

Ownership is governed to avoid problems that can affect both the family and the business. Anecdotal evidence shows that family owners are building a specific ownership governance by which the ownership system is ruled. From the family perspective, the objectives to pursue by governing ownership issues in family business are linked to the conflict avoidance, the wealth preservation and ensuring the family business continuity (Olson et al., 2003; Suess, 2014; Gersick and Feliu, 2014). Our research question is *How does the family govern ownership to meet the diverse goals of the family and the family’s goals towards the business? More specifically, what kind of ownership governance is put into place to ensure that a workable goal congruence can be achieved and a paralysing conflict can be averted?*

Thus, the objective of this study is to explore how family owners build and enlarge goal congruence between the family goals and business goals of the family. To achieve this objective, we analyse the ownership system in a Finnish FBG and explore ownership governance practices. We present a case study of an FBG in its fourth generation, where the owning family has invested time and effort into building a comprehensive system for governing ownership in the family and business levels. The case illustrates the policies, practices, and methods that the family use for governing ownership and illustrates the requirements and possibilities for an ownership governance system. We limit our examination only to those structures, processes and practices that concern the family owners as a social group and individual members.

We contribute to an overlooked area of research in the context of FBGs by presenting the concept of “*governing ownership*” and creating the framework to illustrate the purpose, elements, objectives and implementation of the effective ownership governance system in this context. We also contribute to the family business literature by providing additional knowledge about the relationship between the owning family and businesses: that is, the family governance side, as most of the studies concentrate on the business governance side of the phenomenon (Howorth and Robinson, 2020). We present governing ownership as a distinct conceptual space from family governance and business governance, each of which have their own governance systems, comprising of structures, mechanisms and processes. In the following sections of the paper, we briefly review the current literature on ownership systems and governance in family businesses. We then present outlines for the conceptualisation of governing ownership. Following this, the research methodology and results of the empirical investigation are explored. Finally, there is a general discussion of the findings and concluding remarks, including suggestions for future research.

Literature review

Governing Ownership System in a complex family business group

The ownership system is a major defining issue in a family business, but even more significant in FBG (Jaffe and Lane, 2004; Almeida and Wolfenzon, 2006; Pihkala, et al., 2019). As a research approach, the system approach concerns complex entities, which are themselves part of a greater whole, and to be composed of interrelated components that interact together and share common properties (Checkland, 1981; Ashmos and Huber, 1987). Family business is defined as a complex system with a tight connection and interaction between three subsystems:

family, business and ownership (Beckhard and Dyer, 1983; Tagiuri and Davis, 1996). Each subsystem has its own life cycle, where events are not concurrent with the other subsystem. However, events always have some degree of effect on other systems.

Changes in a family subsystem are related to the development of the family as a collective (Davis and Tagiuri, 1989; Gersick et al, 1999). The family subsystem includes emotional relationships and socialised moral obligations toward other family members. This forms the family process and task systems, capturing all elements taking part in the profit-making (Davis and Stern, 1988), where the lifestyle and wealth accumulation goals can play an important role for a particular family member (Zachary, 2011). Nonetheless, individual owners are not immune to the collective FBG (Rautiainen et al., 2012); instead, they may form a strong personal identification with the group as an ongoing “*social enterprise*” to be passed on to future generations (Schneper et al., 2008).

Family business is linked to transgenerational wealth “*a continuous stream of wealth that spans generations*” (Habbershon and Pistrui, 2002, p. 223), where family owners benefit from the growth and wealth generated by the business (Morck et al., 2005). Intergenerational wealth transfer and the increase in assets being transferred from one generation to the next requires management practices and an understanding of the meaning of ownership to build the system that best fits FBG. The interplay between multiple social and financial factors is complex, so protecting the family wealth, and family business continuity, needs a particularistic array of financial solutions tailored to the family’s long-term needs, but also a well-functioning governance system that responds dynamically to the family’s changing needs.

Ownership subsystem is a dynamic element comprising legal, psychological and social aspects (Rautiainen, Pihkala & Ikävalko, 2012), and it connects the family and business subsystems in a family business (Klein, Astrachan & Smyrnios, 2005). Family business ownership is seen to develop from controlling owner to a sibling partnership, ending with a

cousin consortium (Gersick et al., 1999) and family syndicate or dynasty (Ward, 2001; Jaffe and Lane, 2004). However, this evolution does not follow a well-demarcated path for all family businesses; instead, it depends on family ownership decisions or actions (Ward, 2001). The changes in an ownership subsystem occur predominantly due to succession (Sharma, Chrisman & Chua, 2003), inheritance or variation in business development (Rautiainen & Pihkala, 2019), in addition to the evolution of the "definition" of the family.

In multigenerational family businesses, ownership is generally inherited, and sometimes new owners have little understanding of what they, as owners, are committed to (Thomas, 2002). With hundreds of share owners, there may be family shareholders who view their shareholdings as an investment with claims to an income and ease of liquidation rather than as a commitment to the continuity of the family business (Thomas, 2002). In situations where the family owner needs cash, for example, the owners expect the use of the assets to be flexible, which in turn requires diversification of investments (Neubauer & Lank, 1998). This is challenging, especially in the context of FBG with multiple companies diversified into different industries with different ownership structures (Pihkala et al., 2019). Diversification of family ownership can bring greater flexibility and give more options for the family in wealth management. At the same time, diversification can also increase complexity, as the number of domains to be managed increases on a variety of dimensions (Akhter et al., 2021).

Especially when examining the family and business functioning in an FBG context, the meaning of ownership is highlighted (Chung & Chan, 2012). Ownership can be seen as a voting power and source of control which owners have over the company (Ward & Dolan, 1998; Pieper & Klein, 2007). This perspective has led to the examination of ownership via varying governance solutions, however, by focusing mainly on the business governance and not the governance of owners.

Studies about owners can be divided further based on research on the ownership base or structures (e.g., Chung & Chan, 2012), the development of ownership (Gersick et al., 1999) or owners as individuals or a collective, namely a family (Rautiainen et al., 2010). Especially in an FBG context, the management of ownership structure, either by “pruning the family tree” (Lambrecht & Lievens, 2008) or by creating systems to manage the diverse ownership groups, and potentially diverse goals of increasing number of owners, is a crucial, and yet understudied, topic (Pihkala et al 2019; Goel et al. 2019). As a step toward this, scholars have emphasised the importance of the owners’ shared vision, united way of actions and responsibility toward both the business and the family (e.g., Davis, 2007; Goel et al., 2019). The systems that owners design must be able to address goal differences of various kinds, including the trade-offs between short- and long-term goals and economic and non-economic goals. Governance systems could bring balance to a complex ownership system and be the determining factor in whether the family is a net positive resource for the business (as well as the family itself), or ends up restricting the success of the FBG (Habbershon & Pistrui, 2002).

Governing family ownership involves a deliberate and tailored governance system that can produce a diverse array of solutions tailored to the family and business needs. In this sense, ownership should be seen as strategic in nature, shaping how resources are accessed and used in the pursuit of economic value for the family (Foss et al., 2021). Both aspects – ensuring the commitment of owners and anticipating future needs – need a governance system to deliberately manage the complexities of a dynamic FBG.

Elements of governance in the family business group

Governance plays a critical role in managing tensions between overlapping subsystems and conflicts potentially arising from the goal differences of owners, owner groups and businesses

in an FBG (Goel et al., 2019). In the FBG, idiosyncratic elements of family businesses run through the system, but the level of complexity is higher, partly due to increased ownership and structural complexity, which itself is partly idiosyncratic and partly influenced by lower relatedness among businesses. The latter implies that FBGs are not structured purely on the basis of technical or economic synergies among businesses. The FBG form allows the family members to explore their own entrepreneurial intentions by managing individual businesses that are owned together by the family and/or non-family members, which often leads to diversification and independent (yet internal) venturing in the family business. Through this dynamic, the family business grows both in size and in complexity. This, in turn, requires a governance system that allows the requisite level of integration across the individual businesses in the group or otherwise provides a coherent and tractable way to assess the economic and noneconomic value of the FBG to the owners.

Along with the business development, more owners tend to join the business either because of ownership development (Gersick et al., 1997) and/or when outside investors participate in the business (Navarro & Ansón, 2009). Group ownership creates unique needs for the FBG governance system and affects the organisation of FBG governance significantly (Colli and Colpan, 2016). Along with the varying owners and owner collectives, the diversity of the goals multiplies, increasing possible tensions raising from the goal incongruence. Consequently, the meaning of the governance system as a tool to manage the goal congruence among shareholders grows in importance in an FBG (Goel et al., 2019).

The degree of ownership concentration affects the power balance among shareholders and set demands for the governance system and its ability to ensure equitable realisation of all shareholders' interests (Colli & Colpan, 2016). Other ownership related dimensions also influence the needs for a governance system, such as number of owners and owning families, type of owners, dispersion of ownership among families or family members, and relationships

between owners. However, research on these dimensions, and their effect on the family business governance (Daspit et al. 2018), is in its early stage.

A governance system consists of governance structures, mechanisms and processes. Goel et al. (2019) divide governance structures into formal, regulation-based structures and informal structures, based more on relationships, such as trust, culture, history and specific idiosyncrasies of the family business. Both formal and informal structures are necessary and functional if they complement each other. The formal control is needed to minimise the managerial or owners' opportunism, especially in the case of controlling owners and minority shareholders (Yiu et al., 2007). Social or relational control, instead, is important for promoting social interaction and the formation of a shared vision among shareholders (e.g., Mustakallio, Autio & Zahra, 2002; Goel et al., 2019). Governance mechanisms, rules, practices and processes direct and control firm behaviour, and support the balancing and aligning of the interests of stakeholders (Walsh and Seward, 1990). In FBGs, intra-group control and coordination devices, like equity ties, interlocking directors, resource sharing, managerial ties and social and family ties, play crucial roles (Colli & Coplan, 2016).

Most of the governance literature is about business governance, covered largely in the broader field of strategic management, finance and economics, under the term "corporate governance." However, the relationship between the family and the business leads to the need to consider the family-business-relating outcomes, e.g., ownership continuity, stakeholder benefits and satisfaction, emotional ownership, development of leadership competencies from generations to generation and intrafamily entrepreneurship (Gersick and Feliu, 2014; Goel et al., 2019). As the family evolves, the number of family owners and participating family branches tend to increase. This increases the pressure to build the family governance system to govern the relationship between the business and the family (Suess, 2014) and to manage the family participation in the business. The central purpose of the family governance is also to

build commitment and cohesion among the business family, and to collect the family members' insight for the collective view of the business and the family's role within it (Gersick and Feliu, 2014).

FBG governance should be “a flexible, evolving system, which should adapt to the changing contexts and contingencies, aiming at achieving the owners' goals and ultimately sustaining entrepreneurial capability in the FBG” (Goel et al., 2019, p. 255). When functioning well, the governance “nurtures the emergence of the family's shared dream (Gersick et al., 1997; Lansberg, 1999) and structures the operationalisation of that dream in organisational practice.” (Gersick & Feliu, 2014, p. 199) It is crucial that an FBG governance system fits the goals, structure and development of the owning family, and is able to delegate the management power to participating companies (e.g., Jaffe & Lane, 2004). In practice, this means that the system has to be built based on needs arising from the family, as well as ownership systems in the FBG, and it has to adapt for the changes in these FBG subsystems as they develop and change. The governance of the FBG also needs to take into account the characteristics and governance requirements of individual companies, and enable simultaneous consideration and implementation of different objectives at both company and group levels.

To succeed in the governing of a complex FBG, both family governance and business governance need to be utilised effectively: the family governance should create coherence among family owners and form the shared vision of the family's goals for the business, and the business governance should enable the implementation of the owners' vision (Suess, 2014; Goel et al., 2019). However, as ownership, in the end, gives a mandate to govern the complicated wholeness, the precondition for the well-functioning governance system is built at the ownership subsystem. Thus, an additional, conceptually separate domain of governance is needed for the ownership governance system to bring family owners' goals closer to the business goals, to offer channels for discussions between the participants from the family and

business subsystems, and to clarify the owners' responsibilities and rights. Also, operationalisation of the family's goals towards the business, to the business practices and operations (Gersick and Feliu, 2014), could be defined as a part of the ownership governance function. Consisting of a combination of structures, processes, mechanisms and rules, the ownership governance system enables the owners to take their role as a resource, not as a burden in their family business group. (Habbershon & Pistrui, 2002; Davis, 2007).

Drawing clear boundaries between the family and business governance, as well as business and ownership governance, is not easy. For example, family governance structures depicted in earlier literature consists of a wide variation of meeting formats to gather the family members together to discuss and decide about issues. But then, who are actually those who get the invitation? Family members? Family owners? Family owners including next generation family owners? Further, what specific goals are being discussed? Family goals as a family? Family goals for businesses? Continuity as a business family? Family participation? Ownership goals and arrangements? We address this as a conceptually distinct governance space in the next section.

Toward Conceptualising Governing Ownership

Ownership evolves over the family business group life cycle, leading to a change in ownership norms to meet the evolving challenges of the whole FBG system. Individual family owners have a legal right to govern resources invested in family business (e.g., Foss et al., 2021). This right, afforded by ownership, allows owners to deploy resources in novel ways: acquiring and selling resources, investing in them, or recombining them according to the owners' unique, idiosyncratic and ultimately inalienable beliefs about paths to their goals – it is the privilege of ownership. The interplay between multiple social family and financial factors creates

complexity, as goals of individuals need to be articulated, and the overlap or complementarities between these goals assessed and negotiated. Family owners have many opportunities to invest and use their capital, so dedication to financial planning and coordination of family wealth in a matured FBG is essential. This requires competence that most family owners may not have, especially when it comes to new owners, for example, following a generational change.

Competence in ownership plays an important role in creating value for family business (Foss et al., 2021). The well-functioning ownership governance system can be seen as a visible manifestation of ownership competence. An ownership governance system is often drawn up by the family office that manages and oversees the wealth management affairs related to such issues as tax, wealth transfer, fiduciary oversight, investment management, governance, estate planning, risk management, compliance, communication, financial education, among other issues (Rosplock and Welsh, 2012). Along with the process of planning ownership governance, owners are likely to develop their personal understanding towards the assets. Governing ownership also requires the building of deeper understanding about the family's goals, both at family and business levels, as well as creating structures, processes, practices and policies to implement these goals. Creation of an ownership governance system may facilitate owners to define and manage what they want to own, for what purpose, and how the owned assets can be used to create value, as well as understanding how to set goals, define strategy and build management tools to achieve wealth creation.

In Figure 1, we place ownership governance in the conceptual frame of FBG governance, together with family governance and business governance, and explain the possibilities that governing ownership provides to the FBG owners, when they pursue the accomplishment of both family goals and the family's goals for business. Section A (Figure 1) represents the goals of the family owners, each of whom may have slightly different goals. The goals of the individual family owners are made cohesive via the family governance system

– consisting of a formal governance system, such as family council, family constitution, etc. (Parada et al., 2019; Suess, 2014), and an informal governance system, consisting of trust and positive emotional connections among family members (e.g., Mustakallio et al., 2002). While the overall congruence is a dynamic process and a moving target (depicted by variance in section A, the congruence achieved at any point of time is represented in aggregate family goals, arrow A.

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 Insert Figure 1. about here

Figure 1. The fan model of the family business governance conceptualisation

Section B represents the goals of various businesses of the family. Section B acknowledges that goals for various businesses could be different from goals of individual family members (Section A). In addition, each of the businesses may have different goals due to differences in economic opportunity in the external environment, degree of downside risk that needs to be managed and differences in individual goals of business managers. These differences are made congruent via the business governance system – consisting of a formal governance system represented by the composition and functioning of boards of directors, as well as an informal governance system, consisting of cultural norms of obligations and performance (Goel et al., 2019; Parada et al., 2019). This congruence is represented in aggregate business goals, arrow B. Again, this does not assume that complete congruence has been achieved among all the business-related goals (nor is it necessary to achieve this), but merely represents congruence at any point of time.

To emphasise, Sections A and B exhibit different directions, acknowledging the family’s goals individually and collectively may be different (e.g., pursuit of “happiness”) than

the goals of individual businesses, as well as businesses collectively (e.g., returns to capital and satisfying internal and external stakeholders). In an FBG, the ownership governance system attempts to make these different goals congruent, as well as creating reinforcing loops so that the achievement of goals for the family owners also achieves the goals of the businesses.

Section C represents the *ownership governance system* (structures, processes, rules and policies). The effect of the ownership governance system is to increase the acknowledgment and socialisation of owners toward business goals, via developing responsible and knowledgeable owners, who are good stewards of business operations. This, in turn, increases the congruence of the family's goals towards the business goals, by making the achievement of business goals instrumental to achieving the family's goals – as represented by the movement of aggregate family goals, arrow A, towards the aggregate business goals, arrow B. In addition, and simultaneously, the ownership governance system also sets in motion the dynamic to make the business goals congruent to the family's goals, by making the achievement of goals of the family's goals (e.g., in terms of returns, risk, pursuit of businesses that interest the family, etc.) instrumental to achieving the goals of the business and its managers – as represented by the movement of aggregate business goals, arrow B, towards the aggregate family goals, arrow A. A well-functioning ownership governance system can create a functional “workable” congruence between the goals of the family owners as well as the businesses. It is also acknowledged that complete congruence may not be possible, due to philosophical and domain differences between the goals of family and businesses; but a complete congruence is not necessary for the healthy functioning of an FBG.

Finally, an ownership governance system, as represented by section C, works best when it is in balance – providing equal space to both family and business goals to have a voice. If section C tilts upwards towards family goals, it implies that it is designed to serve the goals of the family, and the family owners are not very well conversant about obligations of ownership

and needs of businesses they own. This could result in a reduction in performance on business goals, as they may be starved of attention (e.g., capital, vision, strategy, etc.). If section C tilts downward towards business goals, it implies that the ownership governance system is designed to serve as the goals of the business, and the family owners are forced to serve business goals. This could result in family owners abandoning their ownership to pursue their own interests. Sections D and E represent distinct goals of specific family owners and businesses that are so different that they cannot be made congruent via the use of governance systems. Some family owners may have very distinct and idiosyncratic goals about the businesses that they would like to own, and also where they would like to deploy their personal wealth. They are represented in section D. Similarly, some businesses may have very different goals due to their idiosyncratic characteristics and economic logic. These are represented in section E. In both cases, the respective governance systems (family governance for section D and business governance for section E) would be either inadequate or prohibitively expensive to bring these voices into a semblance of congruence. For these cases, non-governance strategies would need to be adopted – e.g., a buy-out in the case of family owners representing section D, and divestment in case of businesses representing section E.

The governing of ownership in an FBG is important, yet we know little about how ownership is governed across generations and how the family manages the interests of its diverse and large ownership group and prepares for potential challenges in ownership. Solving such challenges is not straightforward. We argue that a long-term perspective is crucial to understand the extent and channels of governing ownership across generations. Next, we introduce a case example that suggests some guidelines to help govern family ownership.

Methodology

The Case Study Approach

The single case study method was selected to investigate how the family governs ownership in a family business group active in Finland. A case study approach allows for empirically investigating “*a contemporary phenomenon in depth and within its real-world context*” (Yin, 2018, p. 15). Major strengths of case studies are that they measure and record behaviour (Yin, 2018) and allow data collection from a variety of resources, both qualitative and quantitative (Chetty, 1996). The choice of a single case study was based on the approach of Dyer and Wilkins (1991), who argue that a single deep case is the optimum form of case study research. They highlight that “*the careful study of a single case leads researchers to see new theoretical relationships and question old ones*” (Dyer and Wilkins, 1991, p. 614). This method was valuable in this research mainly for two reasons. First, the use of the case study approach was appropriate for the study of governing ownership, since it provided in-depth contextual information on the emergence of ownership governance development embedded in the case (cf. Dyer and Wilkins, 1991). Second, it facilitated a holistic and more variegated and nuanced examination of the complex and cross-functional relationship between owners’ capabilities in a case setting. This is enabled by the collection of rich, fine-grained data from multiple sources (cf. Dyer and Wilkins, 1991).

Context

There are various strategies available to guide the case selection process depending on the logic and purpose of the research, whether the researchers seek cases with unique or typical characteristics (Neergaard, 2007). The researchers need to understand and describe the context of the scene in question to such a degree that they can generate a theory in relationship to that context. This means that researchers should get as close as possible to the phenomena under investigation and provide a rich description of the scene and underlying dynamics of the case

(Dyer and Wilkins, 1991; Mintzberg, 1979). For this research, we followed a selection of a longitudinal case, guided by its power to explain and illuminate aspects of theory, rather than the extent to which they were typical in the field (Flyvbjerg, 2011; Silverman, 2013).

In this chapter, we will present a case of a Finnish FBG in its fourth generation. In the case, the business family has invested time and effort into building a comprehensive system for governing the family- and business-level ownership.

Data Collection

To capture the development of ownership governance, it is vital to explain and provide reasoning over time. This means conducting a process analysis on the development of the phenomenon under study (Pettigrew, 1997). Process analysis is meant to uncover how organisational and/or managerial phenomena unfold over time (including emergence and change) (Langley et al., 2013). Given the limited knowledge on the internal complexity in family business groups, we have combined theory elaboration (Lee, Mitchell & Sablinski, 1999) and theory building (Eisenhardt, 1989) approaches in our analysis.

The data collection process has taken place over three years (2018-2020), and mapping followed the rules defined and suggested by Rosa et al. (2019) and Rautiainen et al. (2012). The data have been collected in several stages. Two authors have visited the company several times. We processed data stage-by-stage by integrating variety of data sources over time to enhance an understanding of actors, processes and experiences within the family business group context. Our processual longitudinal approach relied on multiple unique data sources, i.e., archival material, field observations, interviews, journal/newspaper articles and contextual knowledge (see Table 1).

Table 1. Description of data

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Case description

Our case example is a Finnish family business conglomerate, founded in 1901. It has evolved to become a collection of five individual business groups, consisting of holding companies, trade and technology businesses and real estate holdings. The whole group is today privately owned by a Finnish family, having 17 owners in 4th and 5th generations. The group includes several holding companies and six operative companies, most of them having a subsidiary structure and operations both in domestic markets and abroad. Employing 3,600 employees in total, the family business group has achieved yearly sales of almost 1,5 billion in the past years, and has been one of the top ten family businesses, revenue-wise, in Finland.

In the early 2000s, the family realised that only some of their companies were profitable. In addition, it turned out, some of the group companies did not interest any of the owners, either in a business or ownership sense. A common perception among the owners was that something needed to be done fast to make the businesses healthier and to provide value for the owners. An important discussion took place between the owners – what companies should be owned in the future, in what structure the companies would be organised, in what role the owners would operate in different companies and by what logic would the ownership arrangements be made. As a part of the process, boards of different companies were delegated to divide businesses for categories like ‘market leaders’, ‘growth businesses’ and ‘high-risk companies.’ Based partly on this division, and partly on family’s and individual owners’ interest in some companies, the

family then determined what businesses they wanted to be involved in, and what they were willing to give up. In 2002, the FBG was reorganised based on created ownership strategy.

When the family members discussed targets of ownership, they also discussed and decided on the principles and rules to guide the family ownership of the companies. These principles encompassed, for example, the owners' expectations for the business development and financial performance, agreement about what companies the owners were ready to invest in and which business decisions the owners wanted to influence. Owners also defined limits for the authority of the group companies' boards and management, and they developed family governance policies regarding, e.g., family members' participation in the companies, the methods to collect and communicate owners' collective vision, and education and involvement of the next generation owners in the business decision making.

In many cases, the intrafamily conflicts can form the obstacle for family business success (e.g., Olson et al., 2003). To prevent conflicts, the family invested time and effort into building a governance system to promote discussions and mutual understanding among family owners. All fourth-generation owners form the owners' council, a governance entity that meets between General Meetings and is built to collect the owners' thoughts about the ownership, different companies and the family business group development. The owners' council follows the official rules of procedures accepted by the General Meeting. Jaffe and Lane (2004) mention the owners council's role to be to form the collective insight or vision based on the family owners' varying preferences, and further, to communicate the vision to the board of directors, which in turn, interprets the owners' vision for the business objectives. This is also one of the main purposes for the case company's owners' council. The council ensures that the owners have a shared view with respect to the businesses, and that this vision is communicated to the boards of the group companies. This brings the owners' ambitions and goals to the board's consciousness, and the actual board meetings can focus on business issues only.

GOVERNING OWNERSHIP

In addition to defining the objectives for the business group ownership, the family also monitors business performance and the execution of the family vision. At the ownership level, the group companies are examined in the spring, when the family owners meet to discuss business matters, and their appropriateness and attraction from the perspective of the group and ownership. There are only owners in this meeting. After the meeting, the chairs of all operative parent companies receive information about the discussions and the results, including, e.g., notions about the issues that the family thinks need special attention or development in the near future. After this, the fourth-generation notions are communicated to the fifth generation during the summer.

In complex FBGs, often in later generations with an increasing number of owners, one way to consult owners and/or family members in company matters is to organise regular family meetings (Jaffe & Lane, 2004). In the case company, the family has a family owners' meeting twice a year. The first is organised in the spring, about a month before the General Meeting. In this meeting, the CEO and the chairs of each operative company also attend, and chairs go through the previous year's activities and performance. The second meeting, in the autumn, focuses on strategy, and its purpose is to present the updated strategy to the family owners.

Suess (2014) notes that family meetings are often arranged to advance the relationship between the family and the board of directors. In our case, the family meetings are arranged to provide for the wider group of family owners a possibility to get to know and discuss business issues. Acute issues, that are demanding owners' immediate attention, are mainly handled at holding-level ownership entities. The family also uses a "three-document practice" to follow the performance of the group companies, and to get and share information with the chairs and top management of the companies. The three documents include information about the current situation and future prospects of the company, the performance evaluated by using previously defined key performance indicators, and an estimation of leadership potential of the personnel

for future development purposes. Owners go through all the documents in late autumn. The results of this annual seminar will be brought to the attention of all board members and top management to guide the strategy work in group companies.

In family and owners' meetings, the family discusses business issues and meets chairs and CEOs of the family group companies as a collective. However, family members represent the family also as individuals. The family has drawn up the owners' policy to direct family owners' participation and responsibilities in family-owned companies. When drafting the owners' policy, the family has agreed that the policy must be clear and concise and clearly distinguish those issues that are under the owners' consideration from those that belong to the companies' management or the board. Based on the owners' policy, the company management and the board are responsible in operative matters, the company strategies within the scope of current business fields, acquisitions and sales of companies and operations belonging to the line of business, as well as the appointment of an operative management. As such, the family's owners' policy is close to the owner constitution that often addresses issues regarding the governance and family's participation in the company (Suess, 2014).

Since 1914, family members have primarily carried out their responsibilities for the companies through board membership. The family has established principles for forming the boards at each level of the group (Table 2). At the group level, non-family board members from separate group companies interlock to some extent, and the family encourage them to meet from time to time to foster the knowledge sharing about group-level activities among board members. Family members with board membership also participate in knowledge sharing; they are expected to transmit (within the limits of confidentiality) knowledge of the individual businesses and their performance to other family owners.

Table 2. Principles guiding the composition of the board at different levels of the FBG

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The chairs of each of the companies compile the agenda for board meetings but ensure from the owners that the agenda is appropriate. The owners' insight about the company direction plays a significant role in board meetings, too: if the board wants to get the owners' opinions for the issues, and owners representing the family in a meeting are not able to give it, the issue is drawn away from the agenda and brought back after the owners have discussed and formed a shared insight about it.

We summarise the findings from the case to be as follows. The case illustrates how the owner family of a complex FBG manages the family, business and ownership in a way that enables all relevant issues to be addressed, and further, maintains a balance between them. As a way to do this, the family has developed the governance system consisting of the family, the business and ownership governance systems. The separation of spaces between the family, the business and ownership governance provides strategic attention of the family to each of these areas, and at the same time binds them together coherently, so that no one domain has a chance to dominate or overpower the other domains.

The case shows that family governance establishes the value of collectivity for each family member. Family governance structures and processes allow the development of shared goals while retaining for each family member the possibility to also pursue individual goals. Business governance functions as both a channel to share and a way to monitor the implementation of the family vision regarding FBG development. In addition, the business governance enables the family members' direct participation in business decision making and in the education of future competent owners in a real business environment.

The family sees ownership to be the glue connecting family business sub-systems, and owners have put remarkable efforts into developing the ownership governance system to be a deliberate and separate construction to specifically discuss the aspect of ownership objectives like ownership distribution, changes in ownership, goals of ownership (both financial and non-financial) and for creating collective goals and evaluating performance on ownership goals and development. These discussions increase the appreciation and understanding of owners about the business objectives that they can take back to other family members and family governance, and also the value of family ownership, that they can take back to business governance.

Discussion - Governing ownership in a family business group

The case illustrates how the family manages with the issues arising from three family business sub-systems in a complex FBG, and how they manage to do it deliberately and consciously, so that relevant issues in each sub-system are provided adequate structure and due process. Next, we discuss the implications of the case to our conceptualisation of governing ownership by focusing on sections A, B and C (Figure 1), as section D and E did not come up in interviews. We show that although family governance and business governance are important parts of FBG governance, they are not enough without an emphasis on ownership and its governance. We argue instead that effective governing of ownership, and the well-structured ownership governance system, is the key to keep an FBG functioning, and to sustain its possibilities for stability, continuity and growth. By doing this, we contribute to the FBG literature by presenting the concept *governing ownership*, and outlining elements, objectives and the implementation of an ownership governance system.

The conflicts between family members may harm the success of the family business considerably. On the other hand, a shared vision has been found to have a significant positive

impact on business performance, as it guides participating actors in their efforts to achieve an agreed future state (Alvarado-Alvarez et al., 2021). Ensuring the family unity, enabling the creation of a collective vision of the family goals and the family's goals for business, and fostering the goal congruence among family owners seems to be crucial for the success of the FBG (Goel et al., 2019). In this case, the family actively discussed family-related issues to achieve the consensus on goals, and to create a shared vision of expectations towards businesses. The family also put effort into figuring out the target of interests of individual owners. As forums for discussions, located in the family governance system (section A in Figure 1), the family used regular family meetings.

In addition to the topic discussed by the case family, many other topics relating to the family and the family's well-being can be discussed or taken into account in the frame of family governance. (Suess, 2014; Gersick & Feliu, 2014). Issues like balance between the family's economic and non-economic goals, management of the family's relationships to each other, overall family strategy, plans for developing the family's competencies and capabilities over generations, processes to address conflicts and disagreements, socialisation of new family members (e.g., spouses) in the family system, collective events, ceremonies, and rituals, are all targets to clarify the family's vision about themselves as a business family, and to create cohesion among family members.

Especially in the FBG context, with potentially many family members and family branches, the existence of the family governance system is crucial for the family happiness and coherence. It should also take into account the whole family, including both owning family members and those without ownership, and retired and upcoming generations. If the family governance fails in these tasks, the influence may also reflect the business goals (Olson et al., 2003; Suess, 2014).

Based on our case, we can infer that, in Section A of our conceptualisation, the drivers for the discussions are well-being of the family and decisions about the family's (and individuals') goals. This may lead to the contradiction between the business and family objectives, and it may create tension between varying owner groups. If so, it is important to recognise that the family governance system is not able to create goal congruence and cohesion between different owner groups having differing goals.

Business governance ensures the legitimacy of the business operations but is also utilised to articulate the owners' goals for the management, to turn goals into strategic directions, to ensure that there are resources needed, and finally, to monitor the accomplishment of goals (Goel et al., 2019). In this case, the business governance ensures representation of relevant competencies for each business (via space for outsiders), as well as the family's voice, via the presence of its representatives, to ensure that the business' individual interests do not undercut the FBG's overall objectives (e.g., in terms of risk profile and values). It also provides for family members to gain experience in governance and to develop their long-term competence to be a responsible owner.

A business governance system, in our conceptualisation in section B, is driven by the business goals. It aims to ensure the effectiveness and productivity of the business operation and balance between the needs of different ownership groups. In section B, the goals of different group companies are also discussed and a suitable level of goal congruence created between them. However, business governance, based on the principle of equal treatment of shareholders, and the "business first" ideology, must not prioritise or take family owners' expectations and goals into action directly without the proper process to operationalise the family vision into business operations and results. This, again, may create tension between the family and business goals.

Both the family governance system and the business governance system are capable of fulfilling their roles in their own sections, either in section A or section B. However, there is a need for the governance system to bridge the gap between different goals and purposes the family and business sub-systems have (section C in Figure 1). In addition, ownership issues vary in their time frame from, e.g., operative issues, and this creates the need for the forum to adapt longer-term family and ownership issues into shorter-term business issues. These needs are highlighted in the FBGs with multiple companies, multiple owners and complex ownership structures, requiring the multiple-level coordination and control to manage the complexity of the FBG. In many cases, the only common denominator in the complexity is ownership.

To manage the complexity of the FBG, the family built the ownership governance system consisting of structures, mechanisms, processes, practices and owners' policy (Table 3). The purpose of the ownership governance system is to increase goal congruence between the family and business goals, to foster the creation of coherence about the shared vision and strategic directions of the FBG among the owners and to implement good ownership as a business family in group companies.

Table 3. Ownership governance system in the case company

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In the case company, the owners' office serves the owners by creating a functioning interface between the operative and holding companies, arranging the corporate governance of the holding companies and by organising communication between the owners and the holding

companies. The Owners' Office does not deal with the family matters. Other important structures in the family's ownership governance system are the Owners' council, which collects both 4th-generation owners and representatives of the 5th generation to discuss ownership and business, and the boards of directors of the holding companies. In the holding company boards, the owners make central decisions concerning ownership and the future of the FBG companies.

There are also processes and practices in the ownership governance system. The purpose of these practices and processes is to provide forums for delivering the owners' visions further to the boards and top management of the companies, and to support discussions between the family owners, the company management and the chairs of the operative companies. As different companies are represented in the same meetings, these meetings work also as channels for intra-group knowledge sharing. The three-document practice and the owners' annual seminar of business issues provide the family the possibility to share their vision about the business development directly with the business actors, and also to monitor the accomplishment of their vision at the business level.

Finally, the important part of the ownership governance system is governing family members and family owners' participation in the business decision making and business operations. Rules and principles regarding these, as well as the training of the next generation family members in governance, are written into the owners' policy.

Based on the notions from the case company, the ownership governance system has to be a two-way system. Its important function is to act in the middle, as a mediator, between the family and the business. To fulfil this function, the ownership governance system consists of structure, processes, practices and rules to govern the owners' participation in business operations and business decision making, and at the same time, to monitor the accomplishment of the family vision in the group companies. Organising the information flow from the owners to the businesses and back is the central purpose of the ownership governance. In addition, the

elements of ownership governance have to be built so that they facilitate connecting ownership to the business governance functions, and the family governance functions to the ownership.

The creation of the ownership governance system has had several significant outcomes for the functionality of the FBG and the experienced well-being/happiness of the family owners. At first, the ownership governance system provides the arena to bring the family and business goals closer to each other. This is implemented by providing suitable structures for family owners to meet and discuss their aims and goals, but also providing possibilities for the owners to meet and have deep conversations about the business issues together with the companies' chairs and CEOs. As such, the ownership governance system facilitates management of complexity due to the multiplicity of owners and businesses, as the number of them increases, and this increases cohesion and reduces conflicts among family owners.

The other dimension of family well-being and cohesion relates to the family owners' experiences of fairness. Mutually agreed policy regarding the owners' roles and participation ensures the fairness of practices and implementation of the procedural justice (e.g., Frank et al., 2011). That is, the owners can trust in their right to use their voices in decision making, neutrality and transparency, as well as equality and the equity of decision making. Increasing family cohesion is a desirable goal in preserving business as a family business.

The ownership governance system maintains and develops the continuity of ownership and ensures that ownership decisions are based on shared values and approved so that they can also be implemented in business operations. With an effective ownership governance system, the family seeks to ensure that both the flexibility and the objectivity of business decision making are not compromised.

The earlier discussion on risk management in family businesses has mostly concentrated on the examination of the risk-oriented behaviour (or lack of it) of family businesses and the relation between risk-taking and family business performance (e.g. Zahra, 2005). The

individual-level examinations, or non-financial side of risk management, and their objectives have seldomly been explored in family business group literature. Ownership governance enables the discussions about the balance between business and ownership risks, i.e., owners are aware of the extent to which ownership can be used in a variety of critical situations and are aware of the extent of risks that can affect either the business, ownership or both. This, in turn, ensures business continuity as well the implementation of wealth creation.

Conclusions and suggestions for future research

In this chapter, we presented a descriptive case about a FBG in its fourth generation and reflected the findings to the literature of family business ownership management, family business governance, family governance and FBG governance literature to form the suggestion of the conceptualisation for governing ownership in family business groups. This also forms the contribution of the chapter.

The system to govern ownership is the holistic entity, comprising of three separate and interdependent systems – the family, the business and the ownership governance. The overall objective of the larger system could be to ensure the business success and continuity, the family well-being (both financial and mental) and objective decision making in business issues. The family business group context may benefit the development of this kind of system to provide governance clarity and manage the complexity that develops over time in a family business group - in family, business and ownership structure, with more family members, multiple businesses (some without any relationship with other businesses in the group), more owners (including non-family owners) with congruent or incongruent objectives. At the same time, the distinct domains of governance in the FBG structure, as evidenced in our case, enable effective

risk management, encourage dialogue and collaboration among different owners and different generations, and foster implementation of the family's entrepreneurial intentions over generations.

We also suggest some possibilities for future studies. In the family case company, there was a governance leader almost exclusively dedicated to developing the ownership and ownership-related part of the governance system. This, in turn, ensured the establishment of the governance system. It is well known that, for example, in family business renewal, the role of a strong family member in promoting change is crucial (e.g., Salvato, Chirico & Sharma, 2010; Sievinen, Ikäheimonen & Pihkala, 2020). It could be fruitful to study performance differences of having this kind of so-called family "ownership champion" in the development and implementation of the effective ownership governance system. As the family follows the processes set within the governance system, the system is expected to become institutionalised, as subsequent family leaders accept it as a given and work largely within its boundaries. It is an empirical question as to whether subsequent leaders that emerge from within the system are also interested in preserving the system. In addition, the development of the rules regarding governing ownership could be an interesting topic for closer examination. For example, how do the intra family rules for the use of ownership develop through time and generations? When there are inherited rules regarding ownership, how flexible do these rules need to be to account for variations in family ownership evolution, and how are these dynamic rules themselves institutionalised over time?

In our case, the family developed multifaceted mechanisms and structures to control risks relating to business operations, the family wealth, and the risk to compromise the family unity and the owners' objectivity in decision-making. The different risk perspectives have not been considered earlier simultaneously in the same framework. Instead, they are fragmented across different topics, e.g., family conflicts, succession risks, business stagnations and

irrelevance due to lack of innovation, etc. The combined view of different risk management perspectives in an FBG context could result in a deeper understanding of conflict among owners, as well as performance differences among family business groups, including their disintegration.

Draft

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