CORPORATE GOVERNANCE IN GERMANY

SECTION 3

SELF-CONTROL THROUGH BOARD CONTROL: FORMALIZED GOVERNANCE IN CONTROLLING OWNER FAMILY BUSINESSES

Matthias Baumann*, Stephan Stubner*

* HHL Leipzig Graduate School of Management, Leipzig, Germany

Abstract

Our study examines the role of board control tasks in mitigating self-control problems in controlling owner family businesses. We challenge the common perception that controlling owners do not require and use board control because of the concentration of ownership and management in a single individual. We argue that self-control problems, that is agency problems with oneself, have often been overlooked by existing studies on the relevance of control tasks. By using a multiple case study design, we demonstrate that controlling owners frequently use board control as a self-governing mechanism and develop several propositions on favorable board processes and compositions. Rather than independence, we propose that controlling owners should select their board members based on trust and expertise. Moreover, we propose that probing and challenging behavior by board members in combination with the controlling owner's willingness to prepare in a formalized manner support the reduction of self-control problems.

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1. INTRODUCTION

Traditionally, family firm researchers have highlighted the importance of board control tasks in mitigating agency problems arising from conflicts between owners and managers (Jensen and Meckling, 1976), between family and non-family owners (Anderson and Reeb, 2004), and among the group of family owners (Bammens *et al.*, 2008). However, small and medium-sized family enterprises (family SMEs hereafter) are often characterized by a large overlap between ownership and management, up to the point where both roles are concentrated in a single individual (Van den Heuvel *et al.*, 2006; Gersick *et al.*, 1997). Such controlling owners are typically not confronted with the highlighted agency problems (Ang *et al.*, 2000) and board control has thus frequently been argued to be neither beneficial nor necessary for controlling owner family businesses (Nordqvist *et al.*, 2014). We show with our study that board control can nevertheless be beneficial in such situations because of the mitigating effect on the self-control problems of the controlling owner.

Self-control problems emerge from the tendency of individuals to favor instant gratification despite the potential negative consequences for their overall long-term welfare (Thaler and Shefrin, 1981). For instance, a controlling owner may, consciously or unconsciously, refrain from conducting an inevitable strategic change to avoid compromising on his familiar customer base (Ward, 1988) or from critically assessing the performance and competence of family employees, thereby threatening the long-run prospects of the firm (Kets de Vries, 1996). Lubatkin *et al.* (2005) highlighted that controlling owners may be particularly exposed to these problems, as their powerful position reduces the regulating effect of external capital and labor markets. Multiple authors have provided indirect evidence of the self-control problems of controlling owners and the associated increase in agency costs (Steijvers and Voordeckers, 2009; Xiang *et al.*, 2014). With the exception of Schulze *et al.* (2001), however, agency costs resulting from self-control problems have mostly been omitted from empirical studies on board control in family firms. Consequently, multiple researchers pointed out that more research is needed to verify the board's role in mitigating self-control problems (Bammens *et al.*, 2011; Chrisman *et al.*, 2004).

Building on this gap in the understanding of family firm boards, we utilized a qualitative case study approach, involving 13 German family SMEs, to provide more insights into the value add of board control for controlling owners. We find that controlling owners frequently use board control as a self-governing mechanism with the aim to reduce self-control problems. Moreover, we identified several contingencies, such as a probing and challenging behavior of the board members as well as the owner's willingness to prepare for board meetings in a formalized manner, that support this mechanism. Finally, based on our empirical observations, we propose that trust and expertise, rather than independence, may be favorable attributes of board members in this setting.

With our study we contribute to family firm and board research in three ways. First, we contribute to the literature by providing empirical insights into a topic that has with one exception only been covered from a theoretical perspective. In particular, the suggestion that board control may serve as a remedy to self-control problems (Schulze *et al.*, 2001) lacks empirical support despite the prominence of self-control problems in family firms (Bammens *et al.*, 2011). Second, our empirical results further blur the theoretical distinction between board control and board advice. Roberts *et al.* (2005) demonstrated that the provision of board advice allows board members to become more familiar with the firm, thereby enhancing the effectiveness of board control. Conversely, our study highlights the beneficial effects of control tasks as a form of managerial support. Typically, studies associate managerial support with advice-related tasks (Zattoni *et al.*, 2015). Similarly, we highlight that trust and expertise, which have previously been associated with the provision of board advice (Jones *et al.*, 2008), are also relevant for board control in the specific setting of controlling owners. Third, our study focuses on the processes associated with board control in controlling owner family businesses. Previous studies of family firm boards have been criticized for an overreliance on input/output models that aim to link structural board variables directly to firm performance in large quantitative datasets. Due to partly inconsistent findings, numerous calls to explore the effects of board processes have been made (Bammens *et al.*, 2011; Chrisman *et al.*, 2010). By employing a case study method, we demonstrate, for instance, that probing and challenging by board members fosters board control as a self-governing mechanism. A similar result has been found for publicly-traded non-family corporations, in which probing and challenging behaviors were argued to increase control effectiveness and accountability of management (Roberts *et al.*, 2005). Despite their powerful position, controlling owners thus seem to create an environment for themselves that resembles many aspects of board control in the case of external management.

The remainder of the paper is organized as follows. Section 2 presents an overview of the theoretical foundations of the study and examines the role of agency costs, self-control problems, and board control in controlling owner family businesses. Section 3 describes the research method and design. Section 4 presents our key findings and develops propositions on the self-governing role of board control. Section 5 discusses these results, and we conclude with some limitations and possible future research avenues in Section 6.

2. THEORETICAL FOUNDATIONS

Early supporters of agency theory predicted zero or almost zero agency costs in family firms because of the overlap between ownership and management (Ang *et al.*, 2000; Jensen and Meckling, 1976; Fama and Jensen, 1983). In particular, family managers were argued to factor in the interests of their kin when making firm decisions. Board control would thus only be relevant in the case of non-family management to monitor management actions (Karra *et al.*, 2006; Jensen and Meckling, 1976) and even be detrimental to the performance of family managers, as control may be interpreted as a sign of distrust (Falk and Kosfeld, 2006).

However, in the recent literature, family firms have been argued to be subject to a unique set of additional agency problems (Bammens *et al.*, 2011). The presence of (non-family) minority shareholders, for instance, can lead to agency problems, as the owning family's dominant position may allow the extraction of resources from the company at the expense of other shareholders (Anderson and Reeb, 2004) Similarly, the family's pursuit of non-financial objectives may conflict with the often purely financial objectives of minority owners (Chrisman *et al.*, 2004). Minority owners may thus demand appropriate control mechanisms as a prerequisite for the provision of capital (Almeida and Wolfenzon, 2006; Anderson and Reeb, 2004).

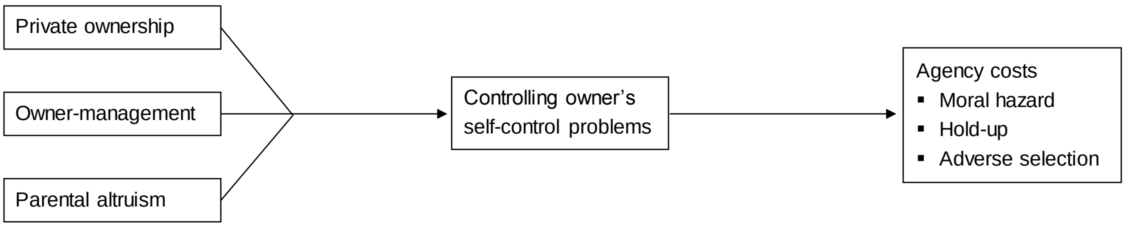
Also, the family itself can be a source of agency problems as ownership dispersion increases. In particular, family firms that have evolved into a sibling partnership or cousin consortium may be confronted with a divergence of interests among different family members (Le Breton-Miller and Miller, 2013; Schulze *et al.*, 2003a). In particular, non-employed owners may call for board control to ensure that their interests are taken into account by management (Bammens *et al.*, 2008).

The three agency situations mentioned above should typically not be applicable for controlling owners. Lubatkin *et al.* (2005) proposed that controlling owners may, however, be subject to agency problems with themselves, also referred to as self-control problems. Following Thaler and Shefrin (1981), the understanding of self-control problems requires a multi-self-model of man. Inside an individual, the conflict between a farsighted planner and a myopic doer is argued to lead to decisions that are detrimental to long-term welfare. The problems arise as individuals partly lack foresight and are not fully disciplined in their behavior. As a result, individuals may choose instant gratification despite the negative impact on their overall welfare.

Self-control problems may be particularly pronounced in family firms with a controlling owner for three reasons. First, private ownership allows the controlling owner to act mostly independent of other shareholders. Compared with publicly traded firms, privately held firms are not subject to pressure from capital markets, which are supposed to provide continuous feedback on firm performance and may act as a regulating force (Fama and Jensen, 1983). Second, direct representation in management grants owners the right to almost freely decide over the use of the firm's assets without having to justify their decisions to other governance institutions or individuals (Carney, 2005). Third, parental altruism may drive self-control problems. Parental altruism describes the tendency of controlling owners to provide employment or other privileges to their offspring that they would otherwise not be granted. Such altruism may change the incentive structure in the firm, as remuneration is no longer primarily based on merit but also on kinship ties (Schulze *et al.*, 2003b).

As outlined by Lubatkin *et al.* (2005), self-control problems may expose the firm to the agency costs of moral hazard, hold-up and adverse selection (Alchian and Woodward, 1988). By giving space to the myopic doer, the controlling owner may omit necessary actions or make decisions that lead to a misappropriation of the company's resources, while not foreseeing the long-term consequences of his behavior. This lack of self-control may lead to decisions that hamper the controlling owner's welfare as well as the welfare of those who depend on him or her (O'Donoghue and Rabin, 2000). Put differently, the controlling owner consciously or unconsciously free-rides on his or her own company (moral hazard). Further, the lack of self-control may also lead to agency costs related to other stakeholders of the firm. For instance, the high degree of power allows the controlling owner to force other agents (for example, minority owners or employees) to accept ex post changes to agreements that are not in the best interests of the agents (hold-up). In turn, the exposure of other agents to the powerful position of the controlling owner may drive them to seek additional compensation through free-riding or shirking (moral hazard). Finally, the preferential treatment of family members as well as capricious behavior of the controlling owner may hamper the firm's reputation in the labor market, thereby leading to an unfavorable effect on the pool of applicants (adverse selection). Figure 1 summarizes the addressed relationships.

Figure 1. Self-control problems of controlling owners



Source: Lubatkin et al. (2005)

These negative consequences may, however, not necessarily materialize for all controlling owners. According to behavioral economics literature, individuals are often aware of self-control problems and therefore establish appropriate self-governing mechanisms such as the voluntary establishment of rules and guidelines and the introduction of incentive and monitoring schemes (O'Donoghue and Rabin, 2000; Thaler and Shefrin, 1981). In this respect, the board of directors has been suggested as a potential self-governing mechanism (Schulze *et al.*, 2001). By governing their own behavior, controlling owners may thus mitigate or eliminate the emergence of self-control problems (Lubatkin *et al.*, 2007). Although controlling owners typically have the power to limit the actual influence of the board, board control can prevent self-control problems, as controlling owners may be assumed to want the approval of their friends and peers and thus also of the board members (Chrisman *et al.*, 2004). In particular in small businesses, board control may increase the owner's awareness of important managerial aspects such as formal planning (Johannisson and Huse, 2000). Similarly, the board can overcome the potential negative effects of intuitive decision-making by forcing the owner to reflect on the biases and heuristics with which he or she may be confronted (Van den Heuvel *et al.*, 2006). Finally, board control may also promote behavior considered to be just and fair by both family and non-family members (Lubatkin *et al.*, 2007).

The empirical verification of the board's role in mitigating the self-control problems of controlling owners is, however, still in its infancy (Bammens *et al.*, 2011). Schulze *et al.* (2001) aimed to validate their assumptions on self-control problems by investigating the effect of outside board member representation and average board tenure on sales growth. Contrary to their expectations, they found a negative relationship for the former and a positive relationship for the latter, indicating no contribution by the board to mitigate self-control problems. However, the authors did show that independent board structures can have a positive effect when coupled with other governance practices. Similarly, other practices associated with board control such as the necessity to draft strategic plans were found to positively influence firm performance. Xiang *et al.* (2014) and Steijvers and Voordeckers (2009) also provided evidence that controlling owners in family firms may indeed be confronted with self-control problems and agency costs, but did not investigate the role of the board in mitigating such problems.

3. RESEARCH METHOD

The majority of studies of boards in family firms adopt large samples in publicly traded family firms (Bammens *et al.*, 2011), which complicates the allocation of board control to specific sources of agency problems. Moreover, in quantitative studies of privately held family firms, the development of scales for the different sources of agency problems is difficult to operationalize (Chrisman *et al.*, 2004). To add to our understanding on board control, this study thus used a qualitative case study approach (Eisenhardt, 1989). Qualitative approaches represent an underutilized research methodology in family firms (Fletcher *et al.*, 2016). The multiple case study design applied in this study enabled us to go beyond the mere studying of board variables and instead target the processes and relationships inside the boardroom, thereby staying close to the empirical phenomenon in its specific context (Yin, 2009, p. 18). The difficulty of obtaining data on boards in family firms because of the tendency to remain private further supported the application of a multiple case study design, as it allowed the collection of private information (Steier and Miller, 2010).

3.1. Context and Sampling

As the context for our study, we chose German family SMEs in the legal form of stock corporations. In Germany, stock corporations require a two-tier governance system with a mandatory supervisory board. Compared with the Anglo-American one-tier system, the German system demands the clear separation of members and tasks between management and the supervisory board. The legal form of stock corporations is still a rather scarce phenomenon among German SMEs (that is firms with usually less than 500 employees), although the dispersion is rising (Helm, 2004).

This context is particularly valuable for answering our research question for two reasons. First, the legal obligation of a board in stock corporations forces the controlling owner to actively consider whether and to what extent he or she aims to permit board control. Even the decision to opt out of board control by establishing a mere "rubber-stamp board," namely a board that provides the legally necessary approval without any scrutiny (Lansberg, 1999, p. 31), may be assumed to follow a deliberate process of evaluation. Consequently, we expect the perceptions of the interviewees to be well-grounded, as they are legally forced to look into board control. Second, we expect self-control problems to be more relevant in smaller firms because of the higher level of discretion of the controlling owner (Chrisman *et al.*, 2004). The extensive influence of the controlling owner on organizational outcomes as well as on the structure of the firm's governance system in smaller firms should make the specific governance challenges more readily observable (Fiegener *et al.*, 2000).

To select our cases, we followed a theoretical rather than a statistical sampling logic by choosing cases that provided the potential to enhance our theoretical understanding (Eisenhardt, 1989). First, a list of all stock corporations in the federal state of Bavaria with concentrated ownership was extracted from the ORBIS database. The purpose of this regional restriction was to enhance the approachability of informants. Following the recommendation of Leblanc and Schwartz (2007), we approached firms formally by direct mailing and informally by targeting gatekeepers. In sum, 23 firms were interviewed to better understand their ownership and governance structures. The purpose of this first explorative step was to gain insights into the context, refine the methodology, and access private information on the firms. In the second step, the sample was reduced to 13 firms to exclude firms that did not meet our selection criteria. We excluded firms that were managed solely by non-family managers (three firms), did not meet our definition of family businesses (three), or had left the controlling owner stage (four). For the purpose of this study, we defined a family business 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 of the family or families" (Chua *et al.*, 1999, p. 25). Allocation to the controlling owner stage required the majority of ownership and control rights to be concentrated in one individual. We interpreted the definition rather broadly and included cases in which the controlling owner has factual majority as the other shareholders do not exercise significant ownership authority (Gersick *et al.*, 1997, p. 32).[25] In sum, we regard the 13 cases as adequate to generate theory while not suffering from a data overload (Eisenhardt, 1989).

3.2. Data Collection and Data Analysis

For each case, we collected data from multiple sources and by using multiple data collection tools (Eisenhardt, 1989) in the period from September 2015 to April 2016. Predominantly, we obtained data through semi-structured interviews with each controlling owner. Before each interview, all available information about the firm and interviewee was collected from secondary data sources such as company publications, newspaper articles, and ORBIS database records. At the beginning of each interview, the purpose of the study was explained and the confidentiality of the given information was ensured. The interview questionnaire covered the ownership, management, and governance-related aspects of the firm, while the majority of questions focused on the tasks, processes, composition, and importance of the board. The majority of the interviews were conducted in person at the respective companies and combined with a plant or office visit. To maintain consistency, all interviews were conducted by the same author. They were all taped and transcribed, expect for two cases in which recording was denied and the protocol was created based on notes directly after the interview.

As shown in Table 1, in six cases, a second interview with a board member was arranged to triangulate our data collection process and verify the statements of the first interview (Yin, 2011, p. 153). The fact that both interviewees usually did not contradict each other and provided similar judgements of the respective situations supported our aim of providing a reliable data basis for our analysis. Besides the interviews, each controlling owner completed a quantitative questionnaire on the extent to which different tasks are executed by the board (task performance). The questionnaire followed the suggestion of Zattoni et al. (2015) and required the rating of five control and six advice

25 Extended definition applies to Cases E, K, and L.

tasks on a Likert-type scale ranging from 1 to 5 (see Table 2). This scale has already undergone empirical verification and it corresponds to the theoretical arguments for both tasks (Forbes and Milliken, 1999).

Table 1. Sample characteristics and data collection

Case	Sector	Legal form[a]	Size[b] Employees	Revenue	Ownership Family	Manager	Generation	Interviews #	Organizational roles	Other data sources Field visits	Documents
A	Service	AG	140	15 m€	100%	100%	1st/2nd	1	Controlling owner	1	15
B	Manufacturing	SE	560	120 m€	100%	50%	5th/6th	2	Controlling owner, Board member	1	15
C	Service	AG	240	15 m€	95%	95%	1st	2	Controlling owner, Chairman	1	9
D	Service	AG	250	85 m€	67%	63%	1st/2nd	2	Controlling owner, Chairman	1	8
E	Manufacturing	AG	370	145 m€	61%	30%	1st	2	Controlling owner, Chairman	1	19
F	Manufacturing	AG	40	5 m€	100%	100%	1st	2	Controlling owner, Board member	1	6
G	Manufacturing	AG	560	90 m€	100%	100%	1st	1	Controlling owner	-	8
H	Manufacturing	AG	120	30 m€	100%	100%	1st/2nd	2	Controlling owner, Board member	1	11
I	Service	AG	110	25 m€	90%	73%	1st	1	Controlling owner	1	5
J	Manufacturing	AG	130	10 m€	60%	50%	3rd/4th	1	Controlling owner	1	13
K	Manufacturing	AG	70	25 m€	100%	37%	1st/2nd	1	Controlling owner	1	4
L	Manufacturing	AG	20	5 m€	89%	35%	1st	1	Controlling owner	1	5
M	Manufacturing	AG	300	110 m€	100%	100%	3rd	1	Controlling owner	-	8
								19		11	126

[a] AG= Aktiengesellschaft (stock corporation); SE = Societas Europaea
[b] m€ = million Euro

Subsequently, the data were analyzed in a two-stage process. First, in-depth case write-ups were drawn and analyzed to increase our familiarity with each case and discern emerging themes in the data (within-case analysis). These write-ups also ensured a structured analysis of the data as well as consolidated the different data sources used (De Massis and Kotlar, 2014). In the second step, the cases were analyzed on a cross-case basis (Eisenhardt, 1989). For this purpose, recurring aspects in the cases that could be related to board control and self-control were grouped into multiple themes, which were then examined by reflecting the findings against the existing literature. In doing so, we moved back and forth between the empirical data and theory several times in an iterative process (Kuckartz, 2014, p. 50).

For both analysis steps, we used MAXQDA qualitative data analysis software and spreadsheets to organize the data and link them with emerging themes. For several aspects, we provide a rating to offer a synoptic view of the characteristics of each firm to allow for a more straightforward comparison and analysis, while further empirical evidence is given in the adjacent quotes. To increase reliability, we recruited a research assistant to read all interview transcripts and provide an additional blind evaluation of the ratings and themes. The results were then compared, showing an inter-rater agreement of 93.2 percent and a Cohen's kappa of 0.859, which is considered to be "almost perfect agreement" (Cohen, 1960; Landis and Koch, 1977). All discrepancies were discussed until a common view was reached.

4. FINDINGS

Our findings are reported in three parts. The first part illustrates that controlling owners do indeed use control tasks as a self-governing mechanism. The second part focuses on the board processes identified as being particularly valuable for enhancing the effect of board control on self-control problems. Finally, we describe our findings on the composition of boards in the controlling owner set-up.

4.1. Board Tasks

We first analyzed the extent to which different tasks are performed by the boards in our sample. In the majority of cases, controlling owners reported a strong board focus on tasks that are generally classified as control-related (see Table 2). In addition to providing advice, the boards thus also seem to control. For instance, in Case D, all five questioned control tasks are relevant or very relevant, which reinforced the controlling owner's conclusion that he "was certainly controlled, no question" (CO, Case D). The variation among the cases demonstrates that the legal framework grants a certain amount of discretion to the firms on how intense board control is realized. In Cases A and M, the owners opted to only fulfill the legal requirement and established a "condensed and reduced version of the board that mainly exists for formal reasons" (CO, Case M). By contrast, the other 11 cases, to varying degrees, showed a stronger execution of control tasks, leading to the following observation:

> Observation 1a: The boards in controlling owner family businesses often perform control tasks that exceed formal legal obligations.

The fact that board members can be elected and deselected at any time by the shareholder assembly creates a special situation for controlling owners.

Table 2. Board task performance

Board task	A	B	C	D	E	F	G	H	I	J	K	L	M
Control tasks													
The extent to which the board:													
▪ Is involved in following up and reassessing investments	1	3	4	5	5	4	3	5	4	n	4	5	3
▪ Sets the CEO remuneration	3	4	5	5	5	3	5	5	1	4	5	5	5
▪ Is active in controlling and evaluating strategic decisions	3	4	4	5	5	5	5	5	4	4	5	3	1
▪ Establishes plans and budgets for the firm's activities	1	2	1	4	2	3	5	2	1	1	2	4	1
▪ Keeps itself informed about the financial position of the firm	3	4	4	4	4	5	5	5	5	3	4	4	4
	2,2	**3,4**	**3,6**	**4,6**	**4,2**	**4,0**	**4,6**	**4,4**	**3,0**	**3,0**	**4,0**	**4,2**	**2,8**
Advice tasks													
The extent to which the board													
▪ Provides advice on management issues	3	3	3	5	4	5	5	5	5	2	4	3	2
▪ Provides advice on financial issues	3	3	1	4	3	5	5	5	4	2	4	3	2
▪ Provides advice on technical issues	1	2	1	4	2	1	4	2	1	3	3	2	1
▪ Provides advice on market issues	2	2	3	4	3	3	4	2	1	2	3	2	1
▪ Initiates strategic proposals	3	4	3	5	3	4	5	5	1	3	4	3	3
▪ Makes decisions on long-term strategy	3	3	3	4	3	3	5	5	1	4	3	3	3
	2,5	**2,8**	**2,3**	**4,3**	**3,0**	**3,5**	**4,7**	**4,0**	**2,2**	**2,7**	**3,5**	**2,7**	**2,0**

Items rated on a Likert-scale ranging from 5 = fully applies to 1 = does not apply; n = no answer provided

While the board is supposed to supervise the manager, the enforcement of the control may be hindered by the manager's simultaneous role as a shareholder. The awareness of the limited enforceability is a theme that emerged with great regularity in most of the cases studied (see Table 3). As one controlling owner stated, "I am the owner of the shares, which means I can basically do what I want" (CO, Case H). Typically, board members can only be "demanding" and provide "recommendations" (CO, Case D), but not enforce a decision on the controlling owner. The powerful position of the controlling owner towards the board is thus not merely a legal circumstance; it is recognized by the controlling owner and board members alike. Three cases provided an exception (Cases E, K, L), as the controlling owners perceived the presence of other shareholders as sufficient to grant the board a certain level of enforcement. Hence,

> Observation 1b: Controlling owners as well as board members are typically aware of the limited enforceability of board control in controlling owner family businesses.

This observation might lead one to assume that board control is not beneficial and mainly perceived as a formal burden by controlling owners, as in Cases A and M. However, the remaining 11 cases showed a more positive evaluation of control tasks (see Table 3). Board control was perceived as valuable as it (i) acts as a mirror for the manager in front of which he or she needs to justify him- or herself (Cases E, F, G, K, L), (ii) prevents managers from becoming blind to organizational processes and issues outside of daily business (Cases B, D, F, G, J, K), and (iii) forces the manager to have a four-eye principle on important decisions (Cases C, D, E, F, G, H, I, J). These reasons suggest that the benefits of board control stem less from the actual contribution of board members and more from the obligation of the controlling owner to scrutinize and review his or her own behavior. Given this limited enforceability, control constitutes de facto a "voluntary self-obligation" (CO, Case I) of the controlling owner. Therefore,

> Observation 1c: Controlling owners in family firms typically perceive board control as valuable as it forces them to reflect on their own actions and decisions.

Observations 1a–1c imply that board control can indeed serve as a self-governing mechanism for controlling owners. Contrary to the common perception (Gómez-Mejía *et al.*, 2007), most of the controlling owners in our sample are willing to share part of the firm's control with outsiders by accepting board control despite the awareness that their powerful position grants the possibility to limit board control.

When comparing the reported benefits of board control in our cases to the argumentation on the emergence of self-control problems (see Section 0), a large overlap can thus be observed. In public non-family firms, capital markets may mirror the activities of managers by providing instant performance feedback (Fama and Jensen, 1983), more frequent changes in the executive suite may prevent organizational blindness (Tsai *et al.*, 2006), and the clear separation of ownership, management, and governance institutions may ensure the four-eye principal on important decisions (Lubatkin *et al.*, 2005).

Board control in our cases often aimed to fulfill similar targets. Controlling owners thus seem to employ board control to "simulate" the benefits of public non-family ownership and thereby overcome potential self-control problems in their firms. This requires that boards do not act as mere "rubber-stamp boards" (Lansberg, 1999, p. 31), but engage in controlling activities. Our observations correspond to the previous suggestion that boards can be used to mitigate self-control problems (Schulze *et al.*, 2001). Summarizing the above, we propose the following:

> Proposition 1 : By acting as a self-governing mechanism that forces the controlling owner to reflect on his or her own actions and decisions, board control can reduce the self-control problems of controlling owners.

Table 3. Enforceability and evaluation of board control tasks

	Enforceability of board control		Evaluation of board control	
Case	**Rating**	**Sample quotes/ evidence[a]**	**Rating**	**Sample quotes/ evidence[a]**
A	Low	Decisions are made by the controlling owner alone. [CO]	Negative	"The board is mainly seen as a burden to fulfill the legal requirements." [CO]
B	Low	"I can only raise a warning finger. But still. Somehow the owner has to want it" [BM] "I actually do not feel controlled. Whether this is good or bad remains to be seen, of course." [CO]	Positive	"But he also only has his experience from here. Blindness to organizational processes is thus inevitable. Same for me. […] I will try to work in this direction. Of course, I do not want to be controlled by the board. On the other hand, it is the job of the board. I would wish the board to have more expertise and play a more active role." [CO]
C	Low	"You do not have a choice. We once intended to dismiss the controlling owner. There was another board member and asked whether we have gone completely crazy. You cannot dismiss the sole shareholder." [BM]	Positive	"Because the structure of a stock corporation and the seriousness in board composition, which includes the selection of knowledgeable board members, relieves an enormous amount of pressure from the CEO or management in their decision making. […] And the whole legal form of stock corporation is very supportive as it includes the establishment of this governance body." [CO]
D	Low	"But it can only be relatively demanding. It can only provide recommendations. Indeed, it cannot do more in my situation. […] If you always have the possibility to exchange the board - I like that as the main shareholder. That is very pleasant." [CO]	Positive	"I knew every single number and took all chances to look behind the scenes." [BM] "And it is very interesting to step back for a couple of hours and to discuss two or three of the topics. […] But it is not that I had a negative feeling due to this control." [CO]
E	High	"But none of us would act against his own conviction and support something that we believe is not correct. We just do not do it." [BM] "Select and withdraw board members as we like – with the expectations that we have and that the financial community has, this would be absolute hara-kiri. And the board members know this." [CO]	Positive	"I think it is very important to have someone who holds a mirror up to you and accompanies everything critically. Life experience and management experience are crucial for that. And they all have seen businesses rise and decline. In this respect, it is good to have sparring partners." [CO]
F	Low	"There were also cases, of course, where I said I do not care. I just do it the way I want." [CO] "If he owns 100 percent of the shares, the board cannot do anything." [BM]	Positive	"On the one hand, there is some healthy pressure for me, which is not bad […] in principle, it is like a mirror for me and a possibility to discuss important questions […] when there are important decisions, I can get reassurance […] It was better for the company from an economic viewpoint. I have not seen it on my own, because I was too close" [CO]
G	Low	"Of course, it would be possible, under these circumstances, to establish a board that only exists on paper and rubber stamps decisions." [CO]	Positive	"A critical questioning from the outside, a monitoring from the outside – I would call it a benevolent mirror of a third party – is not bad in my opinion because you typically tend to become blind to organizational processes over time […] you do not question yourself critically to the same extent anymore, you maybe do not necessarily create the same regulations for yourself. […] It was essential for us to have a functioning board in front of which we can reflect our decisions." [CO]
H	Low	"I am the owner of the shares, which means I can basically do what I want." [CO] "As he owns all the shares, he certainly has the power to say, if you only establish silly regulations, then I will kick you out." [BM]	Positive	The board "feels responsible that the questions will be answered or have been answered. […] I was the sole decision-maker and the sole person responsible for many years. I now feel more comfortable and trust the board members. I am totally happy with the board." [CO]
I	Low	"Actually not. Actually, I decide that together with my brother." [CO]	Positive	"We have now set ourselves clear rules in the employment contracts, regarding acquisitions and investments in other companies as well as budgets for example […] you can call it a self-obligation […] The board only has advantages. In the background you need someone, besides the banks, to review everything, to have a four-eye principle." [CO]
J	Low	The control of the firm is in the hands of the controlling owner because of his majority shareholding. The actual influence of the board is limited. [CO]	Positive	The controlling owner perceives the board as a good way to get some distance to daily business and take on a strategic perspective. The board is perceived as useful to discuss and review important issues in front of a group of people. The control is also argued to be important from a psychological perspective as it is necessary to work in consent and reflect on their own decisions. [CO]
K	High	"My brother, who is on the board as a shareholder and wants to be there, […] he exercises control towards me […] and then we vote on the board." [CO]	Positive	"Certain aspects, which you forgot during daily business, come back on the agenda […] And if you have to present in front of some experts, then it is also a good challenge for yourself." [CO]
L	High	"Control in the sense of control takes place and has to take place. […] if the control would not take place, the board would neglect his duties and the board members would be personally liable." [CO]	Positive	"And what I personally consider as very useful is that the board meetings, which take place regularly, force me to conduct kind of an internal audit, which I probably would not do if the meetings would not exist." [CO]
M	Low	"As the majority shareholder, I should be able to do it anyway. But I will still try to speak to the others and select the new board member in mutual agreement." [CO]	Negative	"It is simply a governance body that you are required to have as a stock corporation. We fulfilled the formal requirements and used it as platform for what we would need to do anyway. […] In the situation of a sole shareholder, I think it would de facto not be necessary." [CO]

Note: [a] [CO] = Quote of the controlling owner [BM] = Quote of the board member

4.2. Board Processes

Our case studies also revealed further insights into how self-governance is actually achieved. Two themes appeared as potential contributing behaviors, one relating to the controlling owner and one relating to board members. We assume that the behaviors from both sides are not independent, but rather reinforce each other.

Starting with the controlling owner, we observed that the willingness to prepare for board meetings and to do so in a formalized manner plays a crucial role (see Table 4). Many of the controlling owners perceived it as valuable to "consciously compile and prepare the respective information" (CO, Case G) for these meetings. This includes, for instance, the written analysis of investment projects in the process of seeking board approval, the preparation of multi-year planning to define the company's strategy, and the updating and presentation of performance figures. Such formal preparation ensures that the controlling owner is forced to invest time and effort before the meeting to "intensively deal with the numbers" (CO, Case K). Owners must also go through past developments and future plans once more for themselves, thereby opening the possibility to gain new insights even before meeting with board members. As one controlling owner stated, "The most valuable aspect for us as management is actually the obligation to regularly prepare for the meetings, for the questioning" (Case L).

These observations concur with current research findings on the performance contribution of formalization, such as drafting strategic plans (Schulze *et al.*, 2001; Mazzola *et al.*, 2008). The underlying rationale is that self-control problems are reduced because of the disciplining function of the plans as well as the preceding process of data gathering (Schulze *et al.*, 2001). Based on our observations, we propose a similarly beneficial effect of board control when the controlling owner prepares for the meetings seriously and applies a sufficient degree of formalization. Hence,

> Proposition 2: The controlling owner's commitment to preparation and formalization strengthens the positive effect of board control on the reduction of self-control problems.

Moreover, we observed that probing and challenging behavior by board members was typically viewed as highly beneficial (see Table 4). As one controlling owner summarized, the "board fulfills its control function by asking questions as well as by demanding answers" (CO, Case H). For the controlling owners we interviewed, scrutinization by the board was perceived as enhancing the reflection of their own actions. The board not only demanded a justification of past and current development reflected in the firm's reporting but also targeted the substantiation of decisions on investment projects, for example, by demanding "sample calculations" (CO, Case F) as well as challenged the firm's strategic orientation and focus. In contrast to board advice, such probing and challenging behavior by board members did not appear to contribute mainly by bringing in new knowledge and expertise from the outside (Johannisson and Huse, 2000), but rather forced the controlling owner to reflect on his or her own decisions. The probing of the board was viewed to induce a "reflection" and "reconsideration" (CO, Case C) of important issues by the management. Board members also demanded aspects to be worked out in more detail and "presented at the next board meeting" (BM, Case E). Similar to the benefits of preparation for board meetings, new insights mainly appeared to stem from the controlling owner's self-reflection rather than the overt intervention of board members. The limited enforceability of board control because of the overlap between ownership and management (see Section 0) thus does not seem to hamper the positive effects of this probing and challenging behavior. Moreover, the questioning of the controlling owner often laid the platform for input by board members, thereby establishing a linkage to board advice.

The relevance of this probing and challenging behavior corresponds to the findings on board effectiveness in publicly traded firms. For instance, Roberts *et al.* (2005, p. 19) demonstrated that "challenge and questioning – getting the executive to account for their conduct – is the most effective means of intervention and influence." Moreover, the expectation of board scrutiny was found to increase the quality of CEOs' preparation (McNulty and Pettigrew, 1999), which, according to our findings, enhances the self-control of the controlling owner. Similarly, multiple studies have highlighted that the effort of the board members, which includes critical questioning, supports the fulfillment of board tasks (Zattoni *et al.*, 2015; Zona and Zattoni, 2007). Our study thus builds on these findings by demonstrating that similar behavior is relevant for the self-governance of the controlling owner, leading to the following proposition:

> Proposition 3: Probing and challenging behavior by board members towards the controlling owner strengthens the positive effect of board control on the reduction of self-control problems.

Table 4. Board processes supporting the self-governing effect

Case	Sample quotes/ evidence[a]
	Preparation & formalization (controlling owner)
B	"And you have to say that the CEO is very transparent in his presentations. He doesn't deliver just a shortened version of the profit and loss account." [BM]
E	"It is definitely a useful contribution that the board demands the CEO to simply explain, prepare, and present strategic topics and review them critically against the background of his own experiences." [BM]
G	"Preparation for board meetings helps you consciously compile and prepare the respective information […] Starting from the respective reporting structures, onto the respective corporate meetings and regulations regarding investment planning, approval processes, and similar issues; none of these issues would typically be questioned critically [without the board]. This also includes the development of multi-year planning, strategic discussions, and the reflection of the management team, which would typically not occur to the same extent." [CO].
I	"For us, it is mainly relevant that we have to update the financial figures, meaning the forecasts from our consulting work, and that we discuss the business trends based on the profit and loss account, cash flow statement, and other ratios." [CO]
J	"The controlling owner regards the meetings as very important as they provide the possibility to review the pros and cons of decisions once again and thereby reflect on the decisions." [CO]
K	"And of course the preparation for board meetings, the obligation to intensively deal with the numbers yourself, to check everything in detail at least once a quarter […] It is very useful to prepare yourself accordingly. That's good. That's definitely something that delivers value." [CO]
L	"The most valuable aspect for us as management is actually the obligation to regularly prepare for meetings, for the questioning and for getting challenged." [CO]
	Probing & challenging (board members)
B	"We receive quarterly reports. I work through them. And after I have received them – one or two weeks later – I call management and ask my questions." [BM] "He addresses the topics that attract his attention and which he maybe does not like." [CO]
C	"He asks critical questions. Questions that make you think and reflect. The board, from a business perspective, really often asks critical questions […] And when the board says sentences like this, then an active manager reconsiders the topic." [CO]
D	"We took this very seriously […] This includes the reporting and critical questioning of the numbers and trends on the supply as well as on the market side." [BM]
E	"That was a topic where we said we want to know more. How do you do it? How is it backed up? How can you ensure that it is feasible considering the liability of the organization? And then they immediately said okay, we will check. And then it was presented at the next board meeting." [BM]
F	"And when he realizes that there are bigger differences, then he asks questions and asks whether it has a special reason. Are we able to catch it up or what is happening there? […] for instance, they want a sample calculation, based on a product. How does it work that the material cost ratio declines and value creation increases?" [CO]
G	The board "in a very, very streamlined manner critically challenges, from a leadership perspective, from a strategy perspective as well from an implementation perspective, whether the strategic goals are adequately fulfilled and correctly implemented." [CO]
H	"The board fulfills its control function by asking questions as well as by demanding answers. It can not only ask questions and not care, but it feels responsible that the questions will be answered or have been answered. […] The board asks questions […] You have to provide evidence." [CO]
I	"And we receive critical questions once we do not achieve our revenue targets mid-year or at the bottom line, the EBIT targets, for example, could not be achieved. This is than critically challenged." [CO]
J	"Through critical questioning, the board prevents you from getting on the wrong track." [CO]
K	"But they also ask critical questions. They provide questionnaires and other things that have to be filled out." [CO]
L	"As long as we stay within the target figures, there is less activity. Once we are out of the target figures, there is a lot of activity […] once we send out the preliminary numbers, we already provide the explanations, saying you will probably ask this, that is why you already get those two documents attached." [CO]

Note: [a] [CO] = Quote of the controlling owner [BM] = Quote of the board member

4.3. Board Composition

In the final section, we report our findings on the composition of the studied boards. First, we categorized all board members in each case according to their affiliation with the controlling owner, separating board members with familial ties, friendship ties, and business ties (other than the board membership itself) and independent directors. Except for Case G, all cases were dominated by affiliated board members (see Table 5). In Case G, the focus was merely "to have a qualified composition" and the selection of board members aimed to follow an objective "balanced scorecard" (CO, Case G). In the remaining cases, the controlling owners tended to opt for board members from within their known circle of people rather than choosing independent outsiders. The majority of interviewees argued that such an affiliation ensures trust between both parties, which in turn was perceived as a prerequisite for the work of the board. The independence of board members was not evaluated as important, possibly because control is ultimately unenforceable. As one controlling owner stated about a board member: "He is demanding because we know each other very well. He cannot be demanding just because he is a board member in that situation" (Case D). As outlined earlier, board control mostly represents a voluntary self-restriction of the controlling owner, thereby demanding a climate that induces the controlling owner to share information openly. Rather than undermining board control, the close relationship may thus benefit the self-governing role of board control. In sum, we observed that the "human factor is an essential aspect" (CO, Case I). In four of the cases (Cases E, G, K, L), the importance of trust and social ties was perceived to be less important and instead a more professional attitude towards board members was favored. The relevance of trust thus seems to vary according to the preferences of the controlling owner.

Existing studies of boards in family firms have highlighted the beneficial role of trust with regard to board advice (Bammens *et al.*, 2011). Trust is defined as the willingness "to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action […], irrespective of the ability to monitor or control that other party" (Mayer *et al.*, 1995, p. 712). Jones *et al.* (2008) argued that social ties form the basis for interpersonal trust towards board members, which in turn makes family businesses more receptive to receiving board advice. Similarly, Lester and

Cannella, Jr (2006, p. 762) argued that "trust is central to family business relationships involving advice and counsel, because families tend to guard their privacy, and are very careful with whom they share confidential information."

Table 5. Board composition

Case	Board member background		Board member affiliation				Perceived importance of trust	
	Occupation[a]	Resource[b]	Family	Friend	Business	Indep.	Rating	Sample quotes/ evidence[c]
A	Tax advisor	SS		X			High	Controlling owner aims for board members whom he can trust, so that decisions can be made and implemented on short notice. [CO]
	Consultant	SS	X					
	Student	O	X					
B	Business owner	I	X				High	"We see each other often. We talk about everything. They are informed about everything and trust is certainly there as well." [CO]
	Consultant	SS				X		
	Politician	CI		X				
C	Tax advisor	SS		X			High	"All our board members are in office for more than 5 years now and it definitly is a position that requires a lot of trust." [CO]
	Manager	BE		X				
	Professor	CI			X			
D	Business owner	BE		X			High	"He is demanding because we know each other very well. He cannot be demanding just because he is a board member in that situation." [CO]
	Lawyer	SS			X			
	Professor	CI			X			
E	Manager	BE		X			Low	"It is very useful to differentiate here. And we do that. I purposefully do not play the friendship card. We differentiate that very clearly." [BM]
	Manager	BE				X		
	Professor	CI			X			
F	Engineer	O	X				High	"We know each other well enough. Everything is open. We also personally know each other very well." [BM]. "But I did not want to select out of necessity, as it is a very sensitive
	Accountant	O	X					
	Tax advisor	SS		X				
G	Professor	CI				X	Low	Selection of board members based on expertise rather than social ties. [CO] "Whom do we need to have a qualified composition?" [CO]
	Professor	CI				X		
	Manager	BE				X		
	Manager	BE				X		
	Clerk (E)	O			X			
	Mechanic (E)	O			X			
H	Tax advisor	SS			X		High	"We need a chairman whom we can trust." [CO] "We know each other good enough. He normally listens to our reasons." [BM]
	Banker	SS			X			
	Manager	BE		X				
I	Manager	BE		X			High	"The human factor is an essential aspect. Searching a board member through a headhunter, that would be an absolute no-go." [CO]
	Dentist	O		X				
	Consultant	SS				X		
J	Lawyer	SS				X	High	Trust towards board members is considered important. Controlling owner wants to ensure that the ultimate decision rests with him and is not blocked by the board. [CO]
	Factory manager	O			X			
	Ceramicist	O	X					
K	Business owner	I	X				Low	Controlling owner wishes for less family involvement on the board and aims for a more critical viewpoint provided by outsiders. [CO]
	Business owner	BE	X					
	Business owner	BE			X			
L	Banker	SS	X				Low	The relationship towards the board members is kept professional and board meetings take place in very formalized way. [CO]
	Banker	SS				X		
	Business owner	BE		X				
M	Business owner	I	X				High	"I think I have found someone, who I believe is loyal and correct in that situation. As I have said, I think that is more important than the qualification, which he also needs, of
	Business owner	I	X					
	Shop manager	O	X					
			29%	26%	24%	21%		

[a] (E) = Employee representative
[b] I = Insider, BE = Business Expert, SS = Support Specialist, CI = Community Influential, O = Other
[c] [CO] = Quote of controlling owner [BM] = Quote of board member

We argue that trust also plays an important role for board control in the given setting, as it fosters the controlling owner's willingness to accept and support board control. In summary, we propose the following:

Proposition 4: The selection of affiliated board members supports the development of trust between the controlling owner and board members, thereby strengthening the positive effect of board control on the reduction of self-control problems.

Lastly, we report our findings on the expertise of board members. Following the popular classification of Hillman *et al.* (2000), we categorized board members based on their background into insiders, business experts, support specialists, community influential, and a group with a supposedly lower potential of resource provision that could not be allocated (other). The low occurrence of insiders is driven by the fact that executives are not permitted to be board members in the German legal system. In the majority of the cases, directors were allocated to the business experts and support specialists categories. Although controlling owners seemed to generally favor highly affiliated boards, they also paid considerable attention to the background of board members in most cases, reflected by the fact that only around one-fifth of board members fell into the "other" category.

Previous studies have primarily linked the expertise of board members to the provision of board advice (Gabrielsson and Huse, 2005; Jones *et al.*, 2008). We propose that the expertise of board members is likewise necessary to reap the benefits of board control as a self-governing mechanism. First, a higher level of expertise may incline the controlling owner to take the board seriously and thus engage in the control process. As one controlling owner insisted, such expertise forces him to "- family business or not – regularly confront [himself] with such a critical mirror" (Case G). Second, a higher level of expertise should also improve the effectiveness of the performed control tasks. For instance, the probing and challenging behavior identified in Section 0 should be better founded and may direct the controlling owner towards additional aspects by asking the "right" questions. As highlighted by one controlling owner, "management as well as the board members should generally be very knowledgeable people. There should be no teacher–student relationship, but they know on a level playing field which explosive potential their questions carry and which expectation their questions raise" (Case C). Based on these observations, we propose the following:

Proposition 5: The expertise of board members strengthens the positive effect of board control on the reduction of self-control problems.

5. DISCUSSION

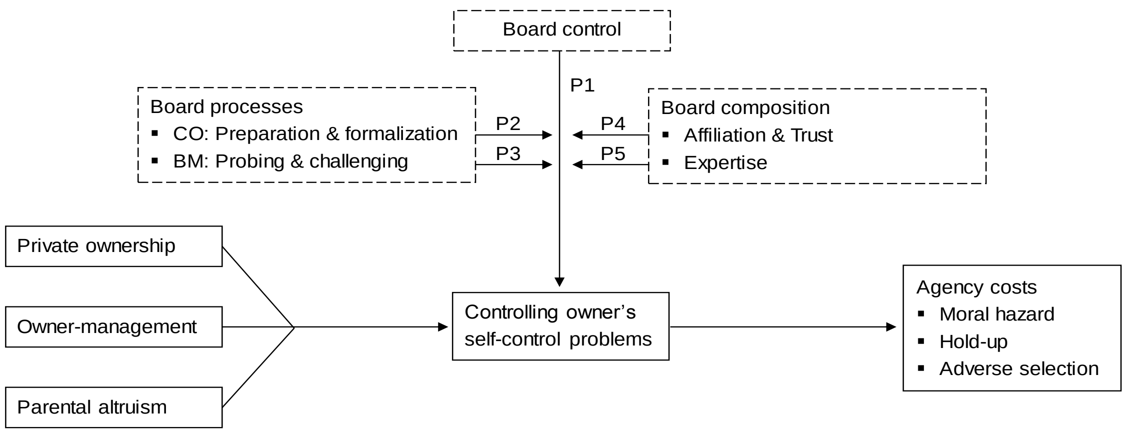
The findings of our empirical study suggest that controlling owners do indeed employ board control as a self-governing mechanism. In combination with the theoretical considerations of Lubatkin *et al.* (2005), the rationale for this behavior can be attributed to agency theory and the potential self-control problems of controlling owners.

Figure 2 provides an overview of the developed propositions of our study and integrates them into a post-analysis framework. In brief, we find that board control in the majority of cases is employed as a self-governing mechanism with the aim of reducing self-control problems and that this effect is strengthened by certain board processes and compositions. Therefore, we lend further credibility to the existing theoretical concept of self-control problems in family firms, while providing additional insights into the role of the board of directors. As indicated by the behavioral economics literature, controlling owners seem to be at least partly aware of the self-control problems they are facing (O'Donoghue and Rabin, 2000; Thaler and Shefrin, 1981). Therefore, the previous assumption that board control is not necessary and not used by controlling owners (Nordqvist *et al.*, 2014) can, at least for our sample, be questioned. On the one hand, the divergence of our results may be because agency problems with oneself have gained insufficient scholarly attention. On the other hand, the divergence may be because controlling owners vary substantially in their pursuit of non-financial goals, which includes the desire to remain in unrestricted control of their firm (Zellweger *et al.*, 2013).

In summary, we show that when the advantage of staying in full control is lower, controlling owners might more readily consider employing a functioning board.

The verification of our results against previous empirical studies is difficult because empirical evidence on the board's role in reducing the self-control problems of controlling owners is limited (Bammens *et al.*, 2011). As outlined before, Schulze *et al.* (2001) did not find an effect of outside board member representation and board tenure on sales growth, presumably indicating no role of the board in reducing self-control problems.

Figure 2. Board control as a self-governing mechanism for controlling owners



Source: Adapted from Lubatkin et al. (2005) based on case study results (dotted lines)
CO = Controlling owner, BM = Board members

Our study bears the potential to provide an explanation for this finding on board composition. We demonstrated that the independence of board members may not be an important aspect of board member selection because of the limited enforceability of board control. Rather, affiliation and trust may strengthen the intended effects of board control. Consequently, outsider status as well as tenure should not be significant predictors of firm performance. In broader terms, our findings correspond to the positive findings on the degree to which increased formalization measures such as strategic planning reduce agency costs (Chrisman *et al.*, 2004; Schulze *et al.*, 2001). Our findings also concur with those of a previous study of stock corporations among German SMEs, which found a high level of satisfaction with the choice of legal form as well as with the mandatory supervisory board, although no separation between board control and advice was made (Helm, 2004). In summary, our results can be integrated into previous work in this field.

6. CONCLUSION

This article clarified the role of board control in controlling owner family businesses. Based on agency theory, we outlined several sources of potential agency conflicts for family firms and identified the self-control problems of controlling owners as an important driver of agency costs, resulting from private ownership, owner–management overlap, and parental altruism. Based on a multiple case study design that examined 13 family SMEs in Germany, we demonstrated the relevance of board control as a self-governing mechanism that forces the controlling owner to reflect on his or her own actions and decisions and thereby supports the reduction of self-control problems. In addition, we developed further propositions on board processes and composition that are likely to strengthen the effect. We propose that trust and expertise, rather than independence, are favorable attributes of board members and that probing and challenging behavior by the board in combination with the owner's willingness to prepare in a formalized manner enhance the effect of board control in this setting.

Despite the advantages of our case study approach, our study has several limitations. First, the restriction to 13 cases and one national setting may bear the risk of idiosyncratic results that lack generalizability to other contexts. Where possible, this risk was minimized through the application of established principles on rigor case study research, such as theoretical sampling, data triangulation, and iteration with the literature (Eisenhardt, 1989). Second, we did not include the costs associated with board control, including the remuneration of board members, or the controlling owner's opportunity costs of the time invested in preparing and attending board meetings. Despite the perceived positive evaluation of the board by controlling owners, the costs associated with this governance mechanism may outweigh its benefits. Considering the legal obligation for a board in our setting, part of these costs may, however, be inevitable in any case. Third, our study was conducted in a German two-tier governance system that legally demands the formal fulfillment of control tasks. Hence, our observations may only represent the response to a legal requirement. However, the comparison of the extent of task performance across firms (see Table 2) showed a substantial amount of discretion for firms. Moreover, previous studies have argued that boards mostly composed of family members may be suitable for minimizing control and establishing a "rubber-stamp board" (Fiegener *et al.*, 2000). As these compositions were rarely observed in our cases, we argue that the reasons for board control cannot merely be found in the legal system.

Future researchers could extend our work by deepening the gained insights and providing further evidence for our propositions. In particular, we suggest that an observation of actual board meetings or even a "one of the lads" study that includes the direct involvement of the researcher (Huse and Zattoni, 2008) could be appropriate research designs to better understand internal behaviors such as the self-reflection process of the controlling owner. Moreover, future research could examine the performance effects of board control for controlling owners. Previous quantitative studies have often made "great inferential leaps" (Pettigrew, 1992, p. 171) from structural board variables to firm performance, thereby possibly failing to account for the underlying drivers of the discovered effects (Zona, 2015). We thus recommend future works include board processes and sample a single family business type, such as controlling owner family businesses, to enable a better allocation of the findings to specific agency problems.

Finally, we note some practical implications of our findings. Given that German SMEs are rarely obliged to establish a board, our study indicates the advantages for controlling owners to (voluntarily) use formalized governance mechanisms. In practice, an advisory board equipped with the necessary rights and taken seriously by the controlling owner may be a suitable option for family firms in other legal forms than stock corporations. Because board control can help the controlling owner exploit his or her potential while limiting the occurrence of self-control problems, our findings add to the body of evidence addressing the scepticism of controlling owners towards increased professionalization.

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