

CORPORATE GOVERNANCE MECHANISMS IN FAMILY FIRMS – A SOCIOEMOTIONAL WEALTH PERSPECTIVE

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Abstract

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This paper examines how German family firms differ in the usage of corporate governance mechanisms in comparison to non-family firms. We give an overview about the relation of corporate governance and family firms, and deliver hypotheses from an empirical study. The study was conducted in 2017 as a written survey and 86 questionnaires could be used for statistical analysis. Based on socioemotional wealth (SEW) theory, we find that with a higher extent of family influence in the firm, less corporate governance instruments are used. Furthermore, corporate governance is used primarily to prevent stakeholder confidence in the long-run. However, a formalization of corporate governance mechanisms does not take place. We draw implications for more corporate governance formalization and awareness in family firms both for theory and practice.

Keywords: Corporate Governance, Family Firms, Socioemotional Wealth, Formalization Mechanism, Professionalization

1. INTRODUCTION

Family businesses are not only known as a decisive factor for economic growth and capital formation, but a considerable number of companies worldwide can be defined as family businesses (Spanos et al., 2008; Klein, 2000). This is one of the reasons why family businesses and their particularities in theory, practice and science have become increasingly important (Faccio & Lang, 2002; Colli et al., 2003; Dossena, 2009). The uncovering of advantages and disadvantages in family-owned companies in comparison to other companies can therefore be understood by examining the multitude of assumed dynamics and functions in the family-owned company (Kets de Vries, 1993; Chrisman et al., 2005). This makes the family one of the most valuable resources owned by family businesses (Cabrera-Suárez et al., 2001). Even when it comes to a universalistic definition, the binding factor of family businesses is the focus on the family business and the simultaneous use of two different levers: controlling

family ownership and corporate management (Chua et al., 1999; Dyer & Whetten, 2006).

Another aspect that is increasingly attracting attention in the global economy and the media is the behaviour of "good" corporate governance throughout the entire company. Due to accounting scandals, white-collar crime and other unethical behaviour, corporate governance principles are becoming increasingly important. These issues are important not only for large corporations, but also for SMEs and family businesses. However, the context of corporate governance focused on the individual components and the use of specified instruments in the context of family-owned companies is not widespread, especially since corporate governance is an issue that is relevant to every company regardless of its status.

Based on the SEW theory, we investigate whether family-owned companies behave differently when using corporate governance mechanisms. The SEW theory draws attention to the characteristics of certain family-owned companies that can create or

destroy values for family businesses (Kelly et al., 2000; Feltham et al., 2005). On-going findings from family business research indicate that family businesses are replacing formalised corporate strategy instruments with informal corporate behaviour and verbal communication within the company rather than formalised corporate strategy instruments. The planning horizon also differs for family-owned companies and is rather limited for family businesses in strategic management (Ward, 1988). This could be problematic, because family businesses act according to the dual function of planning the family business and the owner's perspective at the same time (Carlock & Ward, 2001). For this reason, family-owned companies need new strategies and approaches to expand planning horizons and formalized processes.

The aim of this article is therefore to provide a more detailed insight into the corporate governance structures of family-owned companies in Germany, to develop hypotheses that document differences in the way they deal with corporate governance components and instruments, and to provide recommendations for action that are considered valuable for theory and practice.

Therefore, the following paper aims to answer the following research question:

Are there differences in the standards for the implementation and formalisation of corporate governance between family-owned and non-family businesses?

In order to better understand the hitherto unexplored field of linking family businesses and corporate governance, we have chosen the SEW perspective for the underlying study as the most appropriate. This article is structured as follows: After the introductory part with the presentation of the study objective, we will discuss the concepts of family-owned companies and their links to corporate governance by providing an overview of the theoretical literature on the SEW approach, family-owned companies and corporate governance mechanisms. Section 3 presents the research methodology and the derivation of hypotheses for the underlying study. The most important results of the study will then be presented. Finally, the last section concludes with a discussion and reflections for future research.

2. THEORY

2.1. Socioemotional wealth (SEW)

Although literature shows that the socio-emotional wealth (SEW) approach, especially in family enterprise research (Martínez-Romero & Rojo-Ramírez, 2015), is still known as a relatively new theoretical approach, a large number of studies have so far used the SEW approach as an underpinning theory.

The origins of the SEW approach are related to the emergence of research contributions from Gómez-Mejía et al. (2007), in which non-financial questions were explained as the key to the performance of family businesses, which were taken into account by emotional requirements such as reputation issues, the family friendliness itself and their influence on external factors and follow-up discussions (Gómez-Mejía et al., 2007). Since then,

the underlying definition has been the most prominent for the SEW concept and sets a milestone in family enterprise research (Romero & Ramirez, 2016). This is not only the starting point for the SEW approach, acceptance as a theory for family enterprise research, but also the need for further research efforts and theoretical reinforcement continues to increase (Zellweger & Dehlen, 2011; Berrone et al., 2012; Vandekerckhof et al., 2014).

According to Martínez-Romero and Rojo-Ramírez (2015), SEW is one of the situational approaches in which different situation-based dynamics lead to different effects at the SEW level. So there are positive factors that trigger a large SEW, but as already mentioned, more and more literature is dealing with the negative stimuli that could lower the SEW (Martínez-Romero & Rojo-Ramírez, 2015). Nevertheless, Berrone et al. (2012) prove that SEW is the most important characteristic parameter for explaining the behaviour of family businesses.

In the meantime, several directions have emerged over time for interpreting the behaviour of family businesses that use the SEW approach as a basis for interpretation. Developments in thematically subdivided silos include competitive behaviour and benchmarking (Zellweger & Astrakhan, 2008, Astrakhan & Jaskiewicz, 2008; Zellweger & Dehlen, 2011), diversification (Gómez Mejía et al., 2007; Gomez-Mejia et al., 2010), Risk Management (Gómez Mejía et al., 2007), Management Studies (Stockmans et al., 2010, Goel et al., 2013) and Corporate Social Responsibility (Berrone et al., 2010; Deephouse & Jaskiewicz, 2013; Cruz et al., 2014;). The predominant works include transgenerational decision making (Stankiewicz, 2016), organisational structure (Barros et al., 2017) and the negative perception of SEW (Kellermanns et al., 2012; Hasenzagl et al., 2017).

Taking into account SEW as an influencing factor, a further large number of studies examined the different results. Just to mention a few: Impact on stakeholders of the family-owned company (Cennamo et al., 2012), performance reflections (Sciascia & Mazzola, 2008; Cruz et al., 2012; Schepers et al., 2013; Naldi et al., 2013; Pazzaglia et al., 2013) and values (Astrakhan & Jaskiewicz, 2008; Zellweger & Astrakhan, 2008; Zellweger & Dehlen, 2011). Possible sources for SEW are manifold, taking into account authority and power, status and prestige, succession and duty as well as capital formation and altruism (Gómez-Mejía et al., 2011).

2.2. SEW in family firms

According to a study by Mandl in 2008, an aggregated number of family-owned companies in Europe is responsible for about 40 to 50 percent of the number of employees and 70 to 80 percent for all companies. Comparable figures for Germany make up 91 percent of all family-owned companies. In addition, family businesses generate 55 percent of the total turnover in Germany and employ about 57 percent of all employees liable to social security contributions (Statista, 2015).

The main problem for this quantification arises from the different definitions of family-owned companies in literature. There is still no consensus on the conceptualisation and standardised definition of the family business (Astrakhan et al., 2002;

Astrachan & Shanker, 2003). There is therefore a two-handed approach to the labelling of family businesses.

Family businesses can be both large and small and medium-sized enterprises controlled by a family (Ayyagari et al., 2007). Worth mentioning are the qualitative characteristics of family-owned companies, strong relationships with stakeholders such as suppliers, partners etc. and a positive image with regard to employees (Aganin & Volpin, 2005; Carrigan & Buckley, 2008; Panwar et al., 2014).

There are many definitions of the term "family business", but in science the most important definition of Chua et al. 1999:25 is judged: "The family business is a business managed and/or managed with the intention of shaping and/or pursuing 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 way that is potentially sustainable over generations of the family or families".

The main distinguishing feature for the criterion of the definition of family-owned enterprises is the amount of the family's ownership share (Berrone et al., 2010; Gómez Mejía et al., 2007). In addition, there are other distinguishing features for the definition of the family business, such as control by family members, e.g. if the CEO of the company is a family member and a more long-term perspective that deals with the succession and continuity of the company (Vallejo Martos, 2005). In order to solve this problem for the underlying study, we opted for a definition of the family-owned company according to the SEW perspective and the most widely used SEW definition written by Gómez Meija et al. (2007) and Berrone et al. (2010). We therefore suggest that a family-owned company is a family owned business if a family member is the managing director and spokesman of the company at the same time. Possession in the interest of the family means for the family a high power vis-à-vis non-family members and a powerful voice in business decisions (Zahra et al., 2000).

2.3. Corporate governance

Combined with the lack of universal quantification for family-owned companies, the definition of corporate governance is a difficult one. In general, corporate governance is defined as "the structure of rights and obligations between the parties involved in the company" (Aoki, 2001:11). Corporate governance plays an important role in the creation of value and the recording of values for a number of individual stakeholders and under different environmental conditions (Aguilera et al., 2008).

For the underlying study, we deliberately opted for a broader definition of the corporate governance context. For this reason, we understand corporate governance not only in an economic context, but also include ecological and social aspects. Thus, corporate governance can be defined as a framework for long-term value creation and value creation. We also include two different and mutually exclusive dimensions in this definition.

From a holistic perspective, the most important global trends that take into account corporate governance regulations and norms, which are becoming increasingly important in countries and

regions, corporate governance in times of heightened political uncertainty and the increasing relevance of corporate structures (e.g., corporate governance), are the most important global trends. Management Board structures, diversity, etc.) and the focus on value creation in a long-term sustainability perspective (O'Kelley & Goodman, 2017). In addition, diversity issues such as gender diversity and the demand for changes due to demographic change, compensation issues and the increasing threat of cybercrime will be addressed (Barclay Simpson, 2017).

It has turned out that in recent years, a large number of measures to improve corporate governance have already been implemented universally. Nevertheless, the demand for more personal responsibility is the subject of further research.

2.4. Corporate governance in family firms

The relationship between family-owned companies and corporate governance mechanisms has not yet been fully explored. The relationship has been the subject of several essays explaining the differences in performance between family-owned and non-family businesses, but the direct relationship between the influence of the family on the mechanisms of corporate governance is rarely investigated (Bartholomeusz & Tanewski, 2006; Klein et al., 2005; van Essen et al., 2015). One possible explanation for this rather rudimentary and experienced field of research could be the sensitivity of data and information in connection with corporate governance mechanisms. Family businesses are very reluctant to share confidential information, even more so than non-family businesses, which are an obstacle to reliable information due to confidentiality issues (Aguilera & Crespi-Cladera, 2012).

In the area of corporate governance and family-owned companies, most of the contributions deal with more specific corporate governance mechanisms such as remuneration issues (McGuire et al., 2003; Mahoney & Thorne, 2005), Management Board characteristics (Webb, 2004; Bear et al., 2010) and the interests of stakeholders (Chrisman et al., 2007). With regard to corporate governance in family-owned companies, control mechanisms could be abolished or completely ignored, since the family operates as a trusting entity that does not need control mechanisms (Kidwell & Kidwell, 2010).

Nevertheless, the literature tells us that family-owned companies use specific management and control mechanisms that are carried out internally (Kabbach & Crespi-Cladera, 2012). However, family businesses are equipped with a number of internal and mostly informal control mechanisms. We also note that family-owned companies do not necessarily comply with the recommendations of the Code of Corporate Governance compared to their family colleagues. Family businesses are more likely to adapt to problems or challenges arising in corporate governance structures (Aguilera & Crespi-Cladera, 2012). In particular, Kabbach & Crespi-Cladera (2012) find a connection between family ownership and the attitude towards non-compliance. Ultimately, corporate governance is a valuable tool for corporate performance and abuse could be

harmful to both the family and external stakeholders (McGuire et al., 2012).

According to McGuire et al. (2012), the study of corporate governance in family-owned companies is not a trivial undertaking, since "good" corporate governance should obviously lead to an increase in the social performance of the family-owned company, while social performance is also known as a trigger for agency problems.

As agreed in the Family Firm Institute (2007), around 60 percent contribute to greater compliance with ethical codes and standards than for non-family businesses. However, the strategic decision in family-owned companies is very complex, since social (socio-emotional) and asset-building (financial) goals are pursued at the same time (McGuire et al., 2012).

3. THEORY DEVELOPMENT AND HYPOTHESES

Research into family businesses has taught us over the years that the family itself can be a valuable source for family businesses (Habbershon & Williams, 1999). As a result, the word "familiness" has gained importance in recent years (Pearson et al., 2008). However, both family-owned and non-family businesses are responsible for their own success and the sustainability of the company and must run it in the best possible way. The same applies to good corporate governance, which is fair for family members and other stakeholders alike. According to Chrisman et al. (2003), it emerges from the company itself that family-owned enterprises focus on non-financial objectives in comparison with non-family enterprises. For this reason, we have chosen SEW as the basis for the coming chapter to examine whether family-owned companies pursue other non-financial objectives than non-family businesses in the context of corporate governance.

3.1. Family influence, corporate governance and reputation

As already mentioned, family-owned businesses place more value on non-financial aspects than non-family businesses. This is just one reason why family businesses tend to care more about their employees and therefore prefer soft factors such as employer satisfaction, loyalty and trust (Covin, 1994; Carrigan & Buckley, 2008; Orth & Green, 2009; Krappe et al., 2011; Binz et al., 2013). It is more valuable to establish a trusted identity that corresponds to the concept of the family and focuses more on social performance than the mere pursuit of financial performance and high profit margins (Bjuggren & Sound, 2001; Chua et al., 2003; Sharma et al., 2003). Cennamo et al. (2012) have shown that family-owned companies have a higher corporate social performance than non-family businesses, as explained by SEW. Social benefits explained by sustainability, CSR and environmental protection have proven to be important for family businesses and are more focused than in non-family businesses (Dyer & Whetten, 2006; Berrone et al., 2010; Kashmiri & Mahajan, 2014).

As a result, family businesses are more susceptible to the prevention of malpractice and are more likely to engage in positive activism towards social service agreements (McGuire et al., 2012). A survey conducted by the Family Firm Institute (2007)

shows that family businesses consider themselves to be ethical and social, as the factor of family has a positive impact on non-financial performance. In addition, Kets de Vries (1993), Gomez-Mejia et al. (2007) and Berrone et al. (2010) agree with the thesis that family businesses consider reputational issues and external prestige in society to be very important, according to the SEW of family businesses. Although non-family companies also derive measures to increase their reputation and corporate image, family-owned companies are increasingly focusing on this topic because of the "Internal Bonding Function" (Sirmon & Hitt, 2003; Bear et al., 2010). Miller et al. (2013) and Liu et al. (2016) build a bridge between socio-emotional wealth creation, the improvement of reputation and corporate image and compliance with corporate governance rules. They suggest that the focus on socio-emotional prosperity leads to greater compliance with corporate governance rules (Miller et al., 2013; Liu et al., 2016). Oba and Semerciöz (2005), as well as Dyer and Whetten (2006) show similar results, claiming that maintaining image and reputation leads to fewer violations of regulations and morals. These regulations can have different types, such as environmental laws (Berrone et al., 2010), trustworthiness (Miller & Le Breton-Miller, 2003), social standards (Fombrun & Shanley, 1990) or transparency (Liu et al., 2016).

In adapting this view to corporate governance mechanisms, we therefore believe that family-owned companies tend to use and apply corporate governance mechanisms and instruments in order to gain reputation, prevent misconduct and increase SEW. We therefore propose the following hypothesis:

H: The greater the influence of the family, the more the company uses corporate governance tools for reputational purposes for itself.

3.2. Family firms and the lack of formalization of corporate governance instruments

It is said that essential behaviours and experienced routines are in most cases not formalized by coding or transcripts and belong to the implicit knowledge of the family (Jaskiewicz et al., 2013). One reason for this lack of formalisation could be the long terms of office of the CEO if a family member is the CEO of the company (Schulze et al., 2001). Due to the long term of office, decisions are made consistently by a person or the circle around him/her. This means that no permanent shifts in top management are to be expected and that the transfer of knowledge of routines is in the head of the CEO of the family-owned company.

The implicit knowledge of company-specific information in family-owned companies has already been certified by Kets de Vries (1993) and Gomez-Mejia et al. (2007). Applied to corporate strategy, family-owned companies tend to replace formal strategy transcripts with informal metrics such as anecdotal descriptions of corporate culture and the Corporate Code of Conduct/Corporate Behaviour. From a SEW lens, formalisation in family businesses would mean higher costs for the professionalization of ideas, which is less important in family businesses than other non-financial objectives (Lubatkin et al., 2005). Recent studies confirm this view by pointing out that family businesses

generally exhibit a lower degree of formalisation processes (Speckbacher & Wentges, 2012). In most cases, the information is centralised under the top management area and is distributed informally for reasons of time and eagerness to learn (Zahra et al., 2008; Zahra, 2012).

The influence of the family through control and governance could be decisive in replacing formal management activities (Villalonga & Amit, 2006). Posch and Speckbacher (2012) suggest that family-owned companies use less formalised decision-making and control instruments and Speckbacher and Wentges (2012) contribute to reducing the formulation of goals and strategies.

Lazonick and O' Sullivan (2002) note that corporate governance influences the way family businesses deal with company-specific internal processes, organizational structures and routines. In SEW's view, the fact that a family member acts as CEO of the company contributes to compliance with informal codes and rules (Naldi et al., 2013). This goes hand in hand with the fact that the information remains within the family's control. This procedure takes less formalised control and monitoring procedures into account (Schulze et al., 2001; Schulze et al., 2003). Furthermore, Naldi et al. (2013) point out that family-owned companies, as well as non-family businesses, adhere to laws and ethical rules and codes, although family businesses tend to have a tendency for informal perceptions.

For this reason, we propose that family businesses adhere to informal rules and pursue a good internal corporate governance system, but place less emphasis on formalizing these corporate governance structures. We argue that this procedure applies primarily to corporate governance instruments and hypotheses:

H₂: The greater the family influence in a company, the less formalised corporate governance instruments are used.

3.3. Family firms and corporate governance constituents

The prevailing view in the literature is that family-owned companies tend to be viewed positively and at the same time appear more trustworthy than non-family businesses (Carrigan & Buckley, 2008; Binz et al., 2013; Beck & Kenning, 2015). One reason for this intrinsic trustworthiness could be the social character and well-being of the family-owned company (Carrigan & Buckley, 2008; Krappe et al., 2011; Panwar et al., 2014). Kovács et al. (2014) go one step further and postulate that family businesses are more authentic than non-family businesses.

In addition, Memili et al. (2010) and Zellweger et al. (2012) have shown that, in addition to the reputation of the company and the importance of the family image for the external environment, family-owned companies tend to operate on a long-term basis. This could also result from the succession regulation as a very precarious but nevertheless very important issue for the continued existence of the company.

Furthermore, family-owned companies attach greater importance to their customer base and are therefore considered more customer-oriented (Craig et al., 2008). It seems that ethical behaviour is based

on an operational rather than a strategic level (Craig et al., 2008; Deephouse & Jaskiewicz 2013; Zellweger et al., 2010). In summary, it can be said that family-owned companies have to integrate different elements into their business model and shift priorities to key customers and partners.

Current trends in corporate governance lead in two different directions. On the one hand, hard issues such as diversity, remuneration and increased responsibility in the corporate bodies, control rights and the involvement of external members play an important role for the corporate governance image, on the other hand the rather soft trend view towards control mechanisms for sustainability and a stronger focus on environmental, social and sustainability aspects. The pursuit of goals is difficult to unite. This problem can occur with family businesses in particular. In order to promote both family interests and stakeholder goals, family-owned companies must adhere to a higher percentage of corporate governance standards (Li et al., 2016). Secondary effects are again good corporate behaviour, increasing reputation and the formation of a positive corporate image (Li et al., 2016).

Barontini and Caprio (2006) and Bajo et al. (2009) agreed with these proposals and added that family businesses were more inclined to comply with corporate governance rules, in particular to implement long-term corporate strategies. This approach benefits both the family itself and the interests of external stakeholders (Bajo et al., 2009). To achieve this, family businesses use other corporate governance elements than non-family businesses (Briano-Turrent & Poletti-Hughes, 2017).

We therefore propose the following hypothesis:
H₃: The greater the family influence in the company, the more important are the corporate governance constituents.

3.4. Family firms and the long-term perspective of corporate governance

Based on the formal structure of family-owned companies, the literature of the family-owned company combines emotions with the family business (Briano Turrent & Poletti-Hughes, 2017). This family foundation is a motive for the family to adopt a long-term perspective for the company and to set long-term goals instead of short goals. Miller et al. (2008) describe this behaviour as an "assessment of longevity", which is also associated with a high level of learning abilities within the company (Cucculelli & Bettinelli, 2015). Since value creation and value preservation as well as asset preservation play an outstanding role in the family business, permanent structures are indispensable (Briano Turrent & Poletti-Hughes, 2017). Miller and Le Breton-Miller (2003) call this a choice between long-term relationship building and short-term activism.

This long-term perspective is reflected in several areas around the context of the family business. (Gomez-Mejia et al., 2007) determine the positive attitude of family-owned companies to long-term investments rather than short-term financial targets. Family businesses are not only more customer-focused than non-family businesses, but have also established long-term and trusting relationships with all kinds of stakeholders such as

suppliers, partners, external organisations, etc. (Zellweger et al., 2011). From a SEW perspective, transferring the company to future generations is also a continuing desire and leads to the filling of a more long-term perspective (Oba & Semerciöz, 2005).

This affects the way in which the family business does business and organizes the corporate structure and strategy. Holding fast to long planning horizons can also promote the long-term performance of companies (Le Breton-Miller & Miller, 2006). Gaining sustainable positions through strong strategic measures and asset protection is also important for family businesses (Anderson & Reeb, 2004; Braun & Sharma, 2007; Gómez-Mejía et al., 2003). Finally, the succession regulation leads to a stable state of the company's survival in relation to SEW (Gomez-Mejia et al., 2011).

This long-term perspective could also apply to the mechanisms and instruments of corporate governance and favours a far-sighted view of corporate governance regulations.

We therefore propose the following hypothesis:

H₃: The higher the familial influence in the company, the more important the corporate governance trend is "long-term orientation" rather than short-term action.

3.5. Family firms and the satisfaction with corporate governance structures

Family businesses rely on the provision of internal and informal rules, codes and practices to establish a corporate governance structure (Tallman et al.; Vicedo & Vicedo, 2011). The primary objective of this procedure is transparency between all parties involved in the company and independent commercial practices (Fama & French, 1993; Villalonga & Amit, 2006). This informal implementation of actions is also applicable to external communication, e.g. handshakes between partners such as suppliers (Naldi et al., 2013).

One term that is closely linked to the structures of the family-owned company is the word "professionalization" (Steward & Hitt, 2012). The professionalization of family-owned businesses can have various dimensions, such as the effective representation of stakeholder interests through a corporate governance model (Frishkoff & Brown, 1997; Freeman & McVea, 2001), ecological ecosystems and their challenges to business activity (Dumas, 1997) and long-term perception and longevity (Gnan & Montemerlo, 2001). The difficulty of professionalization in family-owned companies lies in the simultaneous representation of the interests of the family and the stakeholder objectives in order to satisfy the needs of all those involved (Lansberg, 1999).

Due to the difficulties, family-owned companies tend to show a lower degree of professionalism in the formalisation of strategic planning and control structures (Songini, 2006). Decision-making processes take place centrally in the upper management team or with the CEO himself (Songini, 2006). According to Gnan and Songini (2003) and Montemerlo et al. (2004), the degree of professionalization is linked to the use of formal mechanisms and governance structures such as planning and control mechanisms. Nevertheless, further formalisation mechanisms to improve the

status of professionalization in relation to corporate governance mechanisms could improve the overall satisfaction of family-owned enterprises in accordance with the regulations (Schulze et al., 2003).

We therefore propose that family businesses, which are less formalised, should also be less professionalised and therefore less satisfied with their integrated governance structures.

The following hypothesis is therefore as follows:

H₄: The greater the influence of the family is, the less satisfied companies are with the corporate governance structure of their company.

4. RESEARCH METHODOLOGY

The framework illustrated in Section 4.1 was tested with the aid of empirical analyses. In the comparative analysis of family and non-family businesses, we used the Mann-Whitney U-Test and the t-Test for continuous variables to test for mean differences. We then used OLS regression models to analyse the differences in the significance of the corporate governance mechanisms between the two groups.

4.1. Sample size and survey data

In order to check our hypotheses, we conducted a structured written survey in Germany. The data in this article are based on the database Nexis (formerly LexisNexis) of German companies. To ensure that a critical mass and a realistic number of companies are included in the survey, we have sent the questionnaire to 1,670 companies from the database that we have randomly extracted in Microsoft Excel. Compared to the German industry as a whole, measured by the Nexis database. The envelope contained the questionnaire with a total of 8 pages and a letter with the invitation to participate. Our pre-test showed that it would take about 20 minutes to complete the questionnaire.

Since smaller companies are not able to answer all questions, the following criteria were used to determine suitability for answering: Company size of at least 50 employees. Of the 57,836 companies fulfilling the criterion in the database, 1,670 selected companies represent 2.88 percent of these companies. This criterion was established because corporate governance is more of an issue that should be taken into account by any company, regardless of its size. In the literature, however, it became clear that most small companies have problems to deal with this issue and to answer profound questions on corporate governance mechanisms.

The survey was conducted as a written survey sent by mail to the Chief Executive Officers of the selected companies in June and July 2017. Of the 1,670 questionnaires sent, 89 were returned to the sender. Three other questionnaires had to be excluded due to missing data. This results in a final sample of 86 written questionnaires, resulting in a response rate of 4.4 percent. Compared to related studies, the response rate is relatively low (Flacke, 2007). One reason for the hesitant response rate could be the rather complicated topic and the fact that not every company deals extensively with the implementation of corporate governance. Corporate

governance also deals with the disclosure and sensitive issues of corporate structure and success, which could further dampen respondents' willingness to participate. As already mentioned, it is difficult to obtain data from family businesses (Speckbacher & Wentges, 2012) due to the sensitivity and secrecy of company information. Therefore, the disclosure of important data is relatively high and takes into account both financial and strategic data and remains more within the family base (Hutton, 2007; Tong, 2007).

In order to control the distortions, we have carried out a comparison between the early respondents and the late respondents according to Armstrong and Overton (1977). The results indicate that there were no distortions in the data when not responding. Table 1 shows the structural data of the survey.

Table 1. Structural data of the survey

<i>Characteristic</i>	<i>Measurement</i>
Sample size	86
Mean of sales	467 million Euro
Mean of employee number	3,314
Respondents	95 percent CEO or top-level management
Industries present in the study	32 percent manufacturing, 34 percent retail, 34 percent services
Family vs non-family firms	66 percent non-family firms, 34 percent family firms

4.2. Variables

Table 2 depicts the definitions of dependent and independent variables in the study.

Table 2. Definition of variables in the study

<i>Variables</i>	<i>Acronym</i>	<i>Definition</i>
Dependent Variable		
Corporate governance aim reputation	<i>AIM_REPUT</i>	Binary variable that takes the value of 1 if reputation is an important aim in the context of corporate governance
Formalization of corporate governance	<i>CG_FORM</i>	Binary variable that takes the value of 1 if the formalization of corporate governance instruments is high
Constituents of corporate governance	<i>CG_CONST</i>	Binary variable that takes the value of 1 if the constituents play an important role for corporate governance
Importance of long-term goals for corporate governance	<i>LONG_TERM</i>	5-point-Likert scale measure for the importance of long-term goals for corporate governance
Satisfaction with corporate governance situation	<i>CG_SATISF</i>	5-point-Likert scale measure for the satisfaction of executives with the corporate governance of the company
Independent Variable		
Socioemotional Wealth as narrow view of family firm	<i>SEW</i>	Dummy variable that takes the value of 1 if a family member leads the company and if the family owns the majority of the company shares
Control Variables		
Firm Age	<i>FIRM_AGE</i>	Number of years from the date of establishment
Company success	<i>SUCCESS</i>	Metrical performance rating based on the scale developed by Venkatraman/Ramanujam (1986)
Industry sector	<i>INDUSTRY</i>	Dummy variable that takes the value of 1 if a company pertains to the manufacturing sector
Company size	<i>SIZE</i>	4 different Dummy variables that take the value of 1 if a company belongs to the respective categories for number of employees: under 100, between 100 and 249, between 250 and 499, more than 499

4.2.1. Independent variable

The literature to date on the definition of family-owned companies is varied and extensive (Chrisman et al., 2004). Based on previous work by González et al. (2014), the variable of the family-owned company was classified on the basis of the participation of the owner family. The way in which family-owned businesses are defined is linked to the results of the study (Cucculelli & Bettinelli, 2015). For the underlying study according to SEW, we used a rather narrow definition of the family-owned company. Therefore, family-owned companies are those whose managing directors are members of the family and the spokespersons of the company. The use of this definition corresponds to the findings of Naldi et al. (2013), which indicate that from the point of view of SEW, a CEO who is a family member is a decisive factor for the family-owned company. The variable was measured in combination with questions: First, it was asked whether a member of the founding family was in charge of the company's management. Secondly, we asked about the shareholder structure of the company. The variable SEW was constructed as a dummy variable that assumes the value of 1 if the company is managed by a family member and

the family owns more than 50 percent of the company shares.

In our study we identified 29 family businesses (SEW) and 57 non-family businesses.

4.2.2. Dependent variables

The variable "Governance aim reputation" (AIM_REPUT) is structured as follows: We have included a question in the questionnaire asking about the objectives that companies pursue in implementing corporate governance mechanisms. The variable was measured on a binary level and the possible outcomes "0=non relevant" and "1=relevant".

The variable "Formalization of Corporate Governance Mechanisms" (CG_FORM) is structured as follows: We have included a question in the questionnaire asking about the degree of formalisation of corporate governance mechanisms. The variable was measured on a binary level and the possible outcomes "0=non relevant" and "1=relevant".

The variable "Components of Corporate Governance" (CG_CONST) is structured as follows: We have included a question in the questionnaire in which we ask the importance of the components and

their social environment for the corporate governance structure of the company. The variable was measured on a binary level and the possible outcomes "0=non relevant" and "1=relevant".

The ordinal variable "Long Term Orientation" (LONG_TERM) is structured as follows: We have included a question in the questionnaire that asks about the significance of longevity for the company's corporate governance structure. The variable was measured on a five-level Likert scale from "1=non-relevant" to "5=very relevant".

The ordinal variable "Satisfaction with Corporate Governance Structures" (CG_SATISF) is structured as follows: We have included a question in the questionnaire asking the degree of subjective satisfaction of respondents about the corporate governance structures of their company. The variable was measured on a five-level Likert scale from "1=completely dissatisfied" to "5=very satisfied".

4.2.3. Control variables

In contingency-based research, there is a need to include further control variables in the research framework. We have therefore included a number of control variables based on previous studies.

Firstly, we have opted for the age of the company (FIRM_AGE), which has been operationalized according to the number of years since the company was founded, as older companies tend to have a higher level of formalisation of corporate governance structures. In order to implement a performance variable (SUCCESS), we used the Venkatraman and Ramanujam (1986) performance scales, since corporate performance

could further influence the decision to make changes in corporate governance.

We have also included controls for the industrial type (INDUSTRY), a dummy that is equal to 1 if the company belongs to an industry or is 0.

Since a large number of comparable studies use the company size (SIZE) as a contingency variable (Chenhall, 2003), we decided to include it as a control variable. We have opted for an open approach to this question and asked the company representatives to enter their individual company employee number. According to Speckbacher and Wedges (2012), there are four size classes that we used for our study. We have opted for a binary approach, which is equal to 1 if the enterprise corresponds to the size class, otherwise 0. The smallest size class was used as a control class with enterprises with less than 100 employees (SIZE_99:"1"if the enterprise has less than 100 employees, N=13). Therefore we build the following groups:

- SIZE 100-249: "1" if the firm has 100-249 employees (N=25)
- SIZE 250-499: "1", if the firm has 250-499 employees (N=12)
- SIZE >499: "1" if the firm has more than 499 employees (N=36)

5. RESULTS

5.1. Descriptive statistics and correlation

The descriptive statistics, frequency and Pearson's correlation coefficients of the variables used in our analysis are presented in Table 3 and Table 4.

Table 3. Descriptive statistics of variables

	Mean	Std Dev	Min	Max
AIM_REPUT	0.55	0.501	0	1
CG_FORM	0.37	0.486	0	1
CG_CONST	0.85	0.362	0	1
LONG_TERM	4.20	1.021	1	5
CG_SATISF	3.60	0.815	1	5
SEW	0.34	0.476	0	1
SIZE_99	0.15	0.360	0	1
SIZE_100_249	0.29	0.457	0	1
SIZE_250_499	0.14	0.349	0	1
SIZE_500	0.42	0.496	0	1
INDUSTRY	0.52	0.502	0	1
FIRM_AGE	75.40	72.844	0	412
SUCCESS	1.44	0.500	1	2

Table 4. Correlation matrix of variables

	REP	FORM	CONST	LONG	SATIS	SEW	S99	S249	S499	S500	IND	AGE	SUCC
AIM_REPUT	1												
CG_FORM	-0.033	1											
CG_CONST	0.068	0.154	1										
LONG_TERM	0.065	0.024	.277*	1									
CG_SATISF	0.236*	-0.206	0.161	0.118	1								
SEW	-0.091	0.131	0.228*	0.256*	-0.237*	1							
SIZE_99	-0.007	0.069	0.090	-0.019	-0.046	0.111	1						
SIZE_100_249	0.120	-0.053	-0.156	0.102	0.092	-0.023	-0.270*	1					
SIZE_250_499	-0.038	-0.085	-0.015	-0.080	0.064	0.068	-0.170	-0.258*	1				
SIZE_500	-0.079	0.053	0.090	-0.024	-0.094	-0.107	-0.358**	-0.543**	-0.342**	1			
INDUSTRY	0.066	-0.013	-0.083	-0.111	-0.106	-0.058	0.013	-0.055	0.048	0.008	1		
FIRM_AGE	-0.112	-0.343**	-0.020	-0.014	-0.085	-0.163	-0.175	-0.012	-0.088	0.200	0.039	1	
SUCCESS	-0.126	-0.181	-0.051	0.097	0.121	0.404**	0.100	0.020	-0.047	-0.059	-0.206	0.034	1

Note: ^a n=86
 ** Significant at 0.01 (2-tails);
 * Significant at 0.05 (2-tails) (Pearson's index).

5.2. Empirical results

We used binary logistic regression models for the binary variables AIM_REPUT, CG_FORM and CG_CONST and OLS regression models for the ordinal variables LONG_TERM and CG_SATISF to test our hypotheses regarding the impact of SEW on the dependent corporate governance variables. In order to test whether we could use to Likert-scaled variables for OLS regressions, we asked the two interview partners in the pre-test whether the distances between the five different possible answers would be view as equidistant. Since this was the case, we opted for OLS regression models. We

also controlled for heteroscedasticity with the test proposed by White (1980). There was no indication for the existence of heteroscedasticity between the variables. In addition, we calculated Cronbach's alpha for the Likert-scale questions concerning the long-term orientation and satisfaction with corporate governance. According to Santos (1999), the score of 0.817 suggests that there is a high level of internal consistency for our scale with the specific sample.

The results for the binary logistic regressions for variables AIM_REPUT, CG_FORM and CG_CONST are presented in Table 5. We used Nagelkerke R² to decide which variables to include for best model fit.

Table 5. Regression results for the binary logistic regressions

Variable	Model		
	1	2	3
	AIM_REPUT	CG_FORM	CG_CONST
SEW	-0.605 (0.642)	-2.167*** (1.001)	1.054*** (0.860)
SIZE_100_249	0.542 (0.845)	-0.474 (0.980)	-1.326 (1.402)
SIZE_250_499	-0.392 (1.025)	-1.453 (1.478)	-1.274 1.574
SIZE_500	0.573 (0.838)	0.453 0.986	0.380 1.501
INDUSTRY	0.595 (0.563)	-0.288 (0.720)	-0.570 0.859
FIRM_AGE	-0.003 (0.004)	-0.022** (0.009)	0.002 (0.005)
SUCCESS	-0.158 0.598	-2.316** 1.031	-1.644* (0.895)
Observations	86	86	86
2LL	81.633	55.207	39.571
Nagelkerke R ²	0.088	0.437	0.366

Note: Robust standard errors in brackets

*** Significant at 0.01 (2-tails);

** Significant at 0.05 (2-tails);

* Significant at 0.10 (2-tails).

Model 1 analyses the influence of SEW on the reputation as a corporate governance objective. Statistically significant effects could not be demonstrated. Therefore, hypothesis 1 cannot be supported. We could not support the hypothesis that family firms enact corporate governance rules for reputational purposes. In this respect, other aspects besides public relations seem to play a role that should be further developed.

Model 2 analyses the effects of SEW on the formalisation of corporate governance instruments. There is a statistically significant effect of SEW, so that hypothesis 2 are supported. Family businesses show a higher probability for the formalisation of corporate governance. Interestingly, there are also significant negative effects of company age and company success. While the negative effect of family influence could be derived from the literature, those two effects are less clear and should be further researched. Especially the negative effect of company success and performance is a rather strong one. This could be explained by the fact that companies that see themselves as economically more successful invest less in corporate governance or, conversely, that companies with lower

performance are more likely to be forced to use and formalize new corporate governance mechanisms.

Model 3 analyses the impact of SEW on corporate governance components. As with hypothesis 2, the effect of SEW is statistically significant, so that hypothesis 3 can be supported. The data show that family firms view corporate governance constituents as more important than non-family firms. Here, we find evidence that supports the view of both Barontini and Caprio (2006) and Bajo et al. (2009). Interestingly, successful companies also place significantly less emphasis on external stakeholders when it comes to corporate governance. This could be interpreted to mean that external stakeholder monitoring decreases with increasing success or that external stakeholders at least exert less pressure to adapt corporate governance structures. A study by Helmig et al. (2016) has shown that stakeholders in the area of corporate governance exert pressure on companies. Our study can show that this trend tends to decline with better corporate performance.

The results of the OLS regressions for variables LONG_TERM and CG_SATISF are presented in Table 6.

Table 6. OLS regression results

Variable	Model	
	4	5
	LONG_TERM	CG_SATISF
SEW	0.680 (0.348)	-0.240 (0.290)
SIZE_100_249	0.113 (0.444)	0.375 (0.419)
SIZE_250_499	-0.354 (0.533)	0.743 (0.536)
SIZE_500	0.062 (0.443)	0.181 (0.417)
INDUSTRY	-0.230 (0.293)	-0.195 (0.246)
FIRM_AGE	0.000 (0.002)	-0.001 (0.002)
SUCCESS	-0.122 (0.321)	0.271 (0.270)
Constant	4.251 (0.640)	3.080 (0.585)
Observations	86	86
Adjusted R-Squared	0.014	0.041
F-Statistics	0.881	0.695

Note: Robust standard errors in brackets

*** Significant at 0.01 (2-tails);

** Significant at 0.05 (2-tails);

* Significant at 0.10 (2-tails).

Model 4 shows the impact of SEW on the long-term orientation of corporate governance. The effect of SEW is statistically significant, so that hypothesis 4 are also supported. Family firms view long-term orientation as more important than non-family firms.

Since we could not show any statistically significant effects of SEW on satisfaction with corporate governance structures, hypothesis 5 is not supported. There is some evidence – albeit not statistically significant – that family firms may be slightly less satisfied with their corporate governance structures than non-family firms. The effect that more successful companies are more satisfied with their corporate governance is also not statistically significant. However, the reverse effect could also apply here, however, that more satisfied companies as a whole show a higher overall corporate performance. This should be analysed in depth.

With the exception of models 2 and 3, the model fit of the tested hypotheses is only moderate. This could mean that we have not been able to identify other variables besides the independent and control variables, which also affect the dependent corporate governance variables that we have tested in our models.

6. DISCUSSION AND CONCLUSION

The results of the study show that family-owned companies and efficient corporate governance mechanisms are not mutually exclusive, but we still need to make further adjustments to the specific needs of family-owned companies.

Our research provides empirical evidence of the role played by the creation of family businesses in shaping corporate governance mechanisms. We have found evidence that long-term orientation, corporate governance components are more important and that the formalisation of corporate governance instruments in family businesses is less important. However, we could not show any impact of SEW on

the reputation as an objective of corporate governance and respondents' satisfaction with the corporate governance structures.

Corporate governance is not an instrument that can be established without maintenance and control. Good corporate governance consists of three key steps. Firstly, when dealing with corporate governance issues, the analysis of the status quo is the most important. Secondly, a company needs to formalize its corporate governance structures and processes in order to establish a corporate governance lifecycle in which all relevant parts of the process are recorded. Thirdly, one of the most time-consuming but valuable process steps is the maintenance part. The formalized process must be validated consistently, whereby loops of meaningful adjustments must be included. It is the dynamic and fast-moving environment in which structures, processes, routines and the business model of a company often have to be questioned in order not to lose sight of the market.

In addition, corporate governance in family-owned companies is rather negative. Hard terms such as compliance, law, management board remuneration or company assessment are associated with corporate governance and corporate insolvencies. Strengthening strategy, structure and culture as a unit could help loosen up the issue and shift the focus to the positive side of corporate governance. In addition to the formalization and institutionalization of corporate governance, it is important that all internal strategic factors are coordinated with one another in order to create a foundation on which to build. Focusing the strategic orientation of the company, taking into account the individual corporate culture and including measures in the guiding principles of the family-owned company could help to merge all the individual parts into a single unit. Dealing with a change management process could be one way of dealing with this major issue. Part of the change management process can include training courses for management and employees, accompanied by

transparency, open communication and an open mind throughout the company. It is in the hands of senior management to implement a top-down approach that is understandable and acceptable to all employees.

Our results help close gaps between family business literature and corporate governance literature. In our theoretical part, we argue that family businesses may be less dependent on formal activities in order for the family to maintain its strong position within the family network. However, since corporate governance is the management and control of the company, it could also be possible that a lack of formalized mechanisms and instruments of corporate governance could be

compensated for by the use of informal management tools such as clan control or direct personal leadership by family members. However, we did not address this issue in our questionnaire.

Obviously, this is one of the main limitations of our study. A deeper and more comprehensive analysis and a better understanding of the informal means and activities of corporate governance must be left to other scientists and studies. In addition, we have used statistical data from the geographical region of Germany, which are reproducible but cannot be easily adapted to other countries and sectors due to the high importance of manufacturing companies for German industry.

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