**Corporate Governance in Family Businesses across Generations: Exploring Intergenerational Issues**

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**Abstract**

The presence of different generations in family businesses creates intergenerational issues that affect the dynamics of their governance structures. Bringing together literature on family business governance with studies of intergenerational relationships, we contribute to our understanding of governance structures and relationships in family businesses. We illustrate these dynamics through a qualitative approach using an in-depth, longitudinal case study of a 180 year old family business, which we followed for 10 years. We focus on intergenerational and intertemporal dilemmas faced by the family throughout the generations, focusing on a shift away from ethical towards economic interests, as both family and business have grown in complexity.

**Introduction**

As it has grown and developed over the years, family business research has increasingly focused on a variety of issues (Bird, Welsch, Astrachan, & Pistrui, 2002). However, succession has remained a dominant theme (Chrisman, Chua & Sharma, 2005; Dawson, 2014; Steier, Chrisman & Chua, 2015; Zahra & Sharma, 2004). A key area of interest within succession studies is represented by intergenerational relationships, i.e. working relationships between family business owner-managers and their successors. This is a crucial topic because intergenerational relationships are important for leadership continuity and long-term success of the family firm (Seymour, 1993). Previous studies have focused on a number of issues such as leadership succession (e.g. Seymour, 1993), commitment of next generation family members (Dawson, Sharma, Irving, Marcus, & Chirico, 2015), emotional relationships, including emotional ownership, with the family business (Björnberg & Nicholson, 2012), and conflict across generations (Davis & Harveston, 1999). However, not much attention has been paid to intergenerational issues within governance structures, as studies of corporate governance in family firms have tended to concentrate more on resources, processes and structures, as will be detailed in the next section of this chapter.

Our theoretical contribution is threefold. First, we enrich prior literature on corporate governance in family businesses by drawing on a novel theoretical approach from psychology studies, which combines the two domains of intertemporal and interpersonal dilemmas (Wade-Benzoni & Plunkett-Tost, 2009). This allows us to build on previous family business literature, which focuses mostly on governance structures and processes, by considering the underlying psychological mechanisms and their outcomes. Second, we build on prior work bringing together intertemporal and interpersonal dilemmas (Wade-Benzoni & Plunkett-Tost, 2009), by contextualizing the idiosyncratic outcomes of such combination of decisions within a family business. Third, we answer calls for more longitudinal studies of family businesses, which are key to improve understanding of the relationships among constructs and to allow family business scholars to move towards a deeper and more thorough understanding of family business phenomena (Evert, Martin, McLeod, & Payne, 2016; Zahra & Sharma, 2004).

 This qualitative study is based on an exploratory longitudinal case study of a 180 year old, fifth generation family business. In the remainder of this chapter, first we present a theoretical overview, bringing together studies on corporate governance in family businesses and research on intergenerational relationships, and propose a theoretical framework. Second, we illustrate our methodology and case study. Then we present and analyze our findings. This is followed by a discussion of our findings, suggesting limitations of the study, possible directions for future research, and practical implications. Finally, we offer concluding remarks.

**Theoretical overview and framework**

*Corporate governance in family business studies*

In general, corporate governance is defined as the “process and structure used to direct and manage the business affairs of the company” with the goal of “enhancing business prosperity and corporate accountability” (Keasey, Thompson & Wright, 1997: 288). Although family business scholars have not agreed on a definition of this construct (Pieper, 2003), governance in family businesses has to do with a set of structures and processes that allow for managing and controlling the business efficiently for the long run (Neubauer & Lank, 1998). Steier and colleagues (2015) define it broadly as “mechanisms used to ensure that the actions of organizational stakeholders are consistent with the goals of the dominant coalition” (p. 1266). Therefore, there is a need to design these mechanisms to “routinely help to understand the needs and concerns of different internal and external stakeholders (e.g., Gersick & Feliu, 2014; Sharma & Nordqvist, 2008)” (as cited in Nordqvist, Sharma & Chirico, 2014, p. 195). Thus, in family businesses, corporate governance is concerned not only with business ownership but also with capital in its various forms, including financial, human, intellectual, social and organizational (Sharma, 2008).

Governance structures in family businesses need to reflect the complexity that derives from the interaction of the business and family systems. Specifically, these governance structures need to respond to various needs (Corbetta & Salvato, 2004; Mustakallio, Autio & Zahra, 2002), including a need for formal control to ensure monitoring and minimize opportunism, and a need for social and relational controls in order to promote cohesion and a shared vision (Mustakallio et al., 2002). The monitoring aspect has its theoretical roots in agency theory and is addressed through hiring, evaluation, compensation, and disciplining policies as well as governance structures such as the family council and board of directors (Corbetta & Salvato, 2004; Gersick & Feliu, 2014). The social/relational aspect of governance structures has its theoretical roots in stewardship theory, with its focus on serving and advising, allocating resources, and providing strategy, advice, reputation, and legitimacy. For example, family meetings promote social interaction and help foster bonding relationships, loyalty, and mechanisms to deal with conflict (Corbetta & Salvato, 2004).

Many studies have focused on boards of directors and their relationship with firm performance (Corbetta & Salvato, 2004), because the board of directors is considered one of the most important governance mechanisms in family firms (Carlock & Ward, 2001; Gallo & Kenyon-Rouvinez, 2005). Recent studies acknowledge the importance of boards of directors, as a way to align shareholders’ and managers’ interests (Voordeckers, Van Gils, & Van den Heuvel, 2007), even in small- and medium-sized companies with concentrated ownership (Van den Heuvel, Van Gils, & Voordeckers, 2006), especially when they include outside directors (Huse, 2005; Neubauer & Lank, 1998; Ward, 1991). Board members provide diverse critical resources, including networks and contacts, which enable them to provide more nuanced advice (e.g. Arosa, Iturralde, & Maseda et al., 2010). Thus board of directors’ resources are useful as long as they match specific environmental needs (Jones, Makri, & Gomez-Mejia, 2008), depending on the lifecycle of the company (Zahra & Pearce, 1989), and in particular in times of crisis, decline and bankruptcy (Arthaud-Day, Certo, Dalton, & Dalton, 2006; Cameron, Kim, & Whetten, 1987; Daily, 1995).

 Previous studies have expanded greatly our knowledge about governance in family businesses, yet little focus has been given to the intergenerational dynamics that take place in these arenas, and the specific decisions and outcomes emerging from such dynamics. Thus, this chapter aims to cover this gap in the literature by exploring intergenerational issues within governance mechanisms.

*Intergenerational relationships*

Literature on intergenerational behavior focuses on the distinct interests of different generations and can be found mainly in two fields: philosophy, which addresses what the incumbent generation should do on behalf of future generations, and is based on ethics, moral reasoning and societal norms; and economics, which addresses the trade-offs between generations (Wade-Benzoni, 2002). In general, potential for intergenerational conflict is linked to a variety of factors (Wade-Benzoni & Plunkett-Tost, 2009). These include differences in preferences about resource allocation and power asymmetry between actors and generations. Conflict can also derive from the fact that later generations are often unable to reciprocate the behavior of previous generations. Moreover, there may be a decoupling of benefits due to time delay, meaning that if the incumbent generation enjoys benefits then the later generation may have to suffer negative consequences or, inversely, the incumbent generation may decide to take on a burden so that the later generation can benefit. Finally, conflict can derive from role transition, when there is a lack of continuity due to frequent changes in business roles (Wade-Benzoni, 2002; Wade-Benzoni & Plunkett-Tost, 2009). These last three sources of conflict (lack of reciprocation, decoupling of benefits and role transition) are less likely to manifest themselves in a family business context where incumbent and later generations continue to interact with each other on both family and business levels; the incumbent generation is likely to act in an altruistic way towards the later generation (Schulze, Lubatkin, & Dino, 2003); and family members, especially senior ones such as the CEO, tend to enjoy long tenures within the business (McConaughy, 2000).

 When there is conflict this is likely to bring about intergenerational dilemmas, because decision makers have to make decisions based on interests that are conflicting with the interests of other actors (Wade-Benzoni & Plunkett-Tost, 2009). Such dilemmas are greater when the future generation has no or limited voice, which can often be the case in family businesses where the incumbent generation is reluctant to let next generation family members participate in business-related decision making (Kellermanns & Eddleston, 2004; Lansberg, 1988) and there is a lack of communication between incumbent and new generations (Ibrahim, Soufani, & Lam, 2001).

There are two main types of intergenerational dilemmas (Wade-Benzoni & Plunkett-Tost, 2009), representing domains of psychological distance between a decision maker and the outcome of their decision. Such psychological distance is due to the fact that the outcome of a decision is distant from the decision maker’s direct experience of reality (Liberman, Trope, & Stephan, 2007). There are intertemporal dilemmas, based on decisions that are made now and whose outcomes are in the future; and interpersonal dilemmas, based on decisions made by certain actors and that affect other actors (individuals or groups). Whilst previous literature has tended to examine intertemporal and interpersonal dilemmas separately, Wade-Benzoni & Plunkett-Tost (2009) brought together the two domains in order to analyze their combined effects. We build on this work by examining the idiosyncratic outcomes of the combination of intertemporal and interpersonal dilemmas within a family business context. This allows us to create a theoretical framework that will aid us in analyzing our case study and will be illustrated in the next section.

**Methodology**

In order to explore intergenerational issues within governance structures, we rely on qualitative research because of its power to capture the specific complexity and dynamics that are unique to family businesses (Nordqvist, Hall, & Melin, 2009), where different actors are present and act in multiple contexts (Dawson & Hjorth, 2012). Qualitative research is particularly suited for understanding intergenerational issues, because it allows us to shed light on the contradictions and dualities (Fletcher, De Massis, & Nordqvist, 2016) that are embedded in the dynamics emerging when more than one generation interacts in formal and informal arenas. In order to analyze our data we draw on an interpretive approach in which the researcher interprets the life experiences of the main actors from the story they tell us. We go back and forth from theory to empirical material (Alvesson & Skoldberg, 2009).

*Data*

The case for this study stems from the Successful Transgenerational Entrepreneurship Practices (STEP) Project, a large research endeavour started in 2005, devoted to studying entrepreneurial behavior throughout family business generations. One of the coauthors has followed this case for 10 years, allowing her to build a trusting relationship with the family, particularly with a key informant, who has always been willing to participate in further interviews. Data were collected though open-ended in-depth interviews from six family members, one independent board member, and one top executive of the company. Family members were from two different generations, the fourth and the fifth, most of them working in the company at the beginning, and only one family member not working in the business. Roles of interviewees varied from managers, to board members and family council members. During the course of interviews, many changes happened in the company with regard to governance.

All interviews had a duration of between 1.5 to 2.0 hours. Data gathered were transcribed verbatim and then translated into a case study. The case was presented to the family and further discussed with the interviewees, allowing for interaction and enriching iterative conversations. Interviews were undertaken within a time frame of 10 years. A total of eight interviews were performed during 2006-2008, and additional interviews were performed with the key informant between 2010 and 2015. Both co-authors read the interview material individually and identified the intergenerational issues based on the framework adopted for this study. A high correspondence was found between the issues raised. Whenever new issues were raised, the authors discussed them to reach an agreement, and added them when appropriate. Multiple sources were used to complement the data gathered via interviews (e.g. observations and secondary material, such as a book about the evolution of the company for their 150th anniversary, news, webpage, etc.) and to understand better some of the aspects studied (De Massis & Kotlar, 2014).

*Jones Co. Case Study[[1]](#footnote-1)*

The Jones family business was founded in the 1830s. With a history of more than 180 years, it has established itself as an important pharmaceutical group in Spain, as one of the oldest businesses in Europe and for its reputation as a profitable long-lasting privately owned family business. The firm, founded by Mr. Albert Jones, has faced many changes along the way in relation to its business model, governance structures, and other strategic decisions that have been particularly prevalent during generational transitions due to the increasing complexity of the family and changes in the environment, at industry and society level, leading to an ever more complex business.

Five generations have been on board Jones Co., with the family always having a key role in management until very recently. In the last 30 years, the family business has made changes regarding involvement of family in management, evolving into a highly professionalized company, where solid governance structures, systems and processes to support decision making have been developed. This has led to the family stepping down from the day to day operations of the business, and as of 2016 the business has been run by an external chief executive officer (CEO). Key management positions have evolved from being founder-centric, to having siblings in the top management team, then a single family CEO, and currently a CEO position held by an external manager.

The family has also developed governance structures, starting from an informal advisory board that later evolved into a formal board, both of which have been critical in the management of intergenerational issues that have taken place over the years, particularly in the fourth and fifth generations. This development has allowed the family to cope with the different issues they have had to deal with along the way. Currently, Jones Co. can be considered a large company in terms of employees, with a total of 700 people. The business has a turnover of 150 million Euro as of 2012, with 80% of revenues stemming from the local market and 20% from the international market, with a diversified portfolio and presence in more than 150 countries around the world.

**Intergenerational decisions**

Jones & Co. shows a history of decisions relating to corporate governance, with long discussions held both in informal and in formal arenas, ranging from the formative stages of the board of directors, when it was merely ceremonial, to when this body was formally created (Parada, 2015). This decision making process has led to specific outcomes involving and affecting different generations. Some of the decisions have been made in agreement with the next or previous generations, some others have been made unilaterally, yet trade-offs have always been present.

*Decisions in the first generation*

Albert Jones founded the family business in the 1830s at a very young age. This was the starting point for some of the key decisions taken at different points in time that led to the development of the new venture and shaped the involvement of five generations. Albert devoted his efforts to building his company and make it grow via product differentiation and diversification into food and medicines. Albert’s dream was to focus on pharmaceutical products, which required technical knowledge that he lacked, thus he decided to build a strategic alliance with a pharmacist to fill this gap. When the agreement ended, Albert continued on his own developing what is currently Jones Co.

*“If my great-grandfather had not built the strategic alliance, we would not be here today working in the pharmaceutical industry… or maybe we would be something else.” (John, 5th Gen.)*

*Decisions in the second generation*

The second generation increased in family complexity. As per the local tradition of women being excluded from business, only the three boys joined the family business, all of them at a very young age. The eldest son, John, following the first born tradition, was raised to take over the company, starting at the bottom to get to know the business from inside out. The two younger brothers were sent to school to learn about business in order to support their eldest brother in the business areas, with Peter taking care of the lab and Walter of the commercial area. Decision making was in the hands of the first born, even though he shared his decisions with his siblings who always supported him. Respect and authority were important values that underlined their relationship. The company expanded more during this generation, with the creation of its first laboratory and the acquisition of larger premises to support expansion. John diversified the business and started distributing products internationally. The new focus of the business was reinforced by product distribution licenses brought to the company.

*Decisions in the third generation*

The third generation grew exponentially in terms of family complexity. There were nine cousins, four boys and five girls. The tradition of keeping women out of the business continued, dramatically reducing family complexity. The heir (John) had only one boy (Albert). Following the family tradition, Albert was sent to work outside the family business to start from the bottom, but he also undertook business studies. Albert faced the Spanish Civil War and the Second World War. The context shaped the way Albert ran the business, forcing him to be discrete so as not to attract too much attention and maintain the business alive. Eventually this difficult context shaped his risk averse character.

Two cousins, John and Steve, joined the company after finishing their studies in pharmacy and sales respectively. John ran the laboratory while Steve took over the commercial area. Robert, another cousin, joined the company for a brief time until he died. Albert assumed leadership of the company and managed to survive these difficult times until the next generation came on board.

*“My grandfather’s period was marked by the fear of war which led to a spirit of not wanting to stand out too much. My grandfather’s role, rather, was to transition, to keep the business running, which was not easy at that time, until my father was brought in.”(John, 5th Gen.)*

*Decisions in the fourth generation*

The fourth generation represented an inflexion point for the growth of the company as well as for family involvement in the business. Albert (4th Gen.), the heir and only boy, became active in managing the company, with a clear vision of where he wanted to take the family business. Family complexity increased to thirteen family members, five boys who joined the company and eight girls. Maintaining the two traditions about the first born and women’s exclusion from business was instrumental in reducing family complexity in the business.

Albert (4th Gen.) studied pharmacy and graduated with honors from his PhD. He was the first pharmacist in the line of direct succession. His educational background defined the future development of the company. Albert (4th Gen.) joined the family business immediately after his studies and worked hand in hand with his father. He launched an R&D laboratory to perform in-house research, an idea not well taken by his father because his experience during war times had made him more cautious with regard to change, he did not see the benefits of this new venture, and was not familiar with this new business model. Despite his reticence and after long discussions, Albert (3rd Gen.) finally gave his son freedom to launch the new business unit.

*“It was very hard for me to convince my father about how important R&D was. My father did not believe in it. In my case it was different; I was very clear about it and dedicated a lot of effort to developing the R&D division. It was not until R&D showed positive results that he supported me.” (Albert, 4th Gen.)*

Albert (4th Gen.) converted the family business into one of the pioneers in the Spanish pharmaceutical industry by doing in-house research. This decision changed the entire business model, transforming the business into a recognized international enterprise. Albert (4th Gen.) and Albert (3rd Gen.) worked well together, because they clearly separated decision making of their respective areas, a rule present in every generation. Main strategic decisions, however, were solely made by the heir. This clear division of responsibilities between the two generations was possible due to their ingrained values about respect and hierarchy. Albert (4th Gen.) was in charge of his endeavour, the R&D lab, while his father ran the business.

*“In the lab, my father gave me plenty of room, but where he didn’t is in the administrative area; he didn’t let me into the commercial area on any other area… Little by little this situation changed.” (Albert, 4th Gen.)*

The cousins joined the business as soon as they finished their studies, as tradition mandated. James, John, Jake and Bern joined the company. Albert became major shareholder with 51% of the stock, following the first heir tradition. The business boomed with growth and high profitability, despite the country’s economic crisis. The company expanded organically, building a production plant in Latin America. Bern (4th Gen.) took over the leadership of the international production plant and moved to Latin America.

Eight family members from two different generations were in several management positions. This caused overlapping of roles and the division of labor became blurred. Interests, profiles, skills and expectations were also diverse.

*“I have had up to eight Jones family members working in the business with no defined functions. This situation sometimes generated confrontation among family members and confusion among lower level employees within the organization.” (Albert, 4th Gen.)*

Albert (4th Gen.) complemented his pharmaceutical studies with business by pursuing a management course in a prestigious business school, giving him a complementary perspective. Albert wanted to expand further the R&D business, but the second cousins had a different vision and expectations for the future of the company, making it more difficult to align interests. At that time, the family met informally at family gatherings, yet they did not talk about business related topics such as strategy of the business, division of labor, or mutual expectations. Albert realized that there were not many possible options for aligning interests with regard to the business orientation, thus he made the difficult decision, but one that he considered the best solution for the family business, to buy out his second cousins’ shares. Albert (3rd Gen.) was still in the business and supported his son in his decision. Thus Albert (4th Gen.) pruned the family tree and became the sole owner of Jones Co.

*“My father, with initiative and determination, said ‘we have to move this thing forward’. If he had not bought the shares, I don’t know how long until my father would have been worn down by conflict… The dynamics of many cousins working together would have been too complex to manage…” (James, 5th Gen.)*

After becoming a sole-owned company, Jones Co. expanded considerably thanks to the fruits obtained after many years of in-house R&D. Albert also expanded the business by diversifying into commercialization of licenses for the home country, and opening an over the counter (OTC) products division. His business background made him aware of the need to professionalize the company more, due to the changing conditions of the environment (opening of markets, deregulation of the sector, entering the European Union (EU)) and his experience of family involvement in the company without clear structures and role definitions. Albert also felt the need to have a space to discuss strategic and succession issues due to the entrance of the fifth generation.

*“My father felt he was all by himself leading the company, even though one of my brothers had already joined. It was his leadership position that required some help and support… He felt the need to create a structure that could help him in governing the company.” (James, 5th Gen.)*

*“I remember, I started thinking about the situation I was facing with regard to the business and also to the family. New opportunities and new challenges were about to arrive with Spain joining the EU. The rules and regulations were about to change, and the market was opening. At the same time my children were starting their careers and my eldest son had been recently incorporated in the business. I was alone at the top, and I really thought… ‘I think I need people that can help me with this new competitive environment and with the incorporation of my children’” (Albert, 4th Gen.)*

Albert created an advisory board that could support him on diverse topics. The advisory board was composed by close, trusted friends with business background and experience in the main areas affecting the business. The advisory board was fully operational for ten years. The role played by the board was to offer advice on the future development of the company, as well as promoting professionalization, strategic changes, and development of the next generation with regard to incorporation, leadership and pathways of new family members. Albert’s four sons were invited to participate in the advisory board, yet they knew that the decision making power remained in the hands of their father.

*“They have been very active in pushing for systematization, rigor in decision making, and professionalization at various levels. My father came from an intuitive decision making mode. For instance [the advisors] said ‘you need to create a clear and written salary policy, a plan with objectives.’” (John, 5th Gen.)*

Based on discussions in the advisory board, Albert created four distinct areas for his four children. The advisors also brought about the need for a succession process, critical to making a smooth transition.

*“The advisory board has been very important for the succession process. They insisted on telling my father not to have the four brothers doing a little bit of everything… They insisted on the need for a strategic plan. Our father has always been very generous and gave us concrete issues to deal with and let us get on with it, and we talked about everything among us.” (John, 5th Gen.)*

*Decisions in the fifth generation*

The fifth generation has experienced the majority of intergenerational issues. The tradition of keeping women outside the business was still in place. The four brothers joined the family business sequentially, invited by their father after each of them had gained work experience somewhere else. Also following the first born tradition, Albert (5th Gen.) inspired by his grandfather’s wishes, studied pharmacy and earned his doctorate in the same field as his father. Albert joined the company after gaining experience internationally. As tradition mandated, Albert also started in the company moving around the different areas to get to know the business well.

*“When I joined the family business I went through various areas. Logically I began in R&D... Then I supervised the production department. When the agreement was reached between my second cousins and my father, I took over the purchasing department… What I learned is that no matter your training, if there’s a need in the family business then someone should fill the gap. I was there at that time.” (Albert, 5th Gen.)*

The second son, Bryan, studied business administration and followed a management program in a prestigious business school. After several years working for a law firm he joined the family business.

*“My first choice was to be a veterinarian, but after a year I switched to business. After I finished my studies I went to work for a law firm. I was convinced my path was not at Jones Co… One day my father asked me ‘would you like to work here?’ and I said ‘Of course I would.’ I remember my father was all by himself at that time and though he had trustworthy employees they were not family members… So he [my father] offered me a job starting from the bottom as a controller in the chemical plant.” (Bryan, 5th Gen.)*

The third son, Brad, also studied business and undertook a management program at the same prestigious school as his father and brothers. After graduating he joined a consulting firm, gaining external experience as his brothers, and later he was invited to join the family business.

*“I planned on developing my career in the consulting firm as far as possible. But three years after being there, a business situation developed [at the family business]... They gave me a managerial role as head of organization and systems and I was responsible for all the information systems and organization. Later on I started to assume responsibility for some administrative and financial matters as well.” (Brad, 5th Gen.)*

The youngest brother, John (5th Gen.) studied law and joined a law firm after finishing his studies. He decided to reorient his professional career, and did an MBA in a prestigious business school. He gained experience outside the family business before joining it.

*“My father didn’t make me join the family business, but he encouraged me to. He wanted to have all four of us here, with a sense of equality among us.” (John, 5th Gen.)*

From the strategic discussions within the advisory board, the first written strategic plan emerged. John (5th Gen.) was named to be in charge of the plan’s coordination, supported by his brothers and the management team.

*“My brothers and I have been able to work together to change things in the company at many levels. We met regularly to discuss about the issues we faced in our day to day activities, and we saw the need to change things… We were lucky because my father gave us freedom to do things, and he was knowledgeable. We were perhaps also clever enough to choose areas in which he was not interested.” (John, 5th Gen.)*

This strategic plan delineated the fifth generation’s thinking and future projects, clearly defining roles based on skills and interests, and building general management positions.

“*So far we had strategic plans, but they were all informal and not written. They were all in my father’s head. The advisory board has been quite instrumental in helping us to develop [the first written strategic plan].” (John, 5th Gen.)*

The advisory board triggered the conversations for developing a family constitution. This led to discussions about the tradition of excluding women. Laura, the eldest sister, was not part of the family business at all. She studied interior design and offered her services to the family business as an external professional. Her brothers decided that the exclusion of women from the business was unfair. With their father’s agreement they decided to include Laura in the family business as a shareholder, with each brother ceding a proportional part of their shares to her.

*“My situation is pretty different from my brothers’. I had always known that I would never belong to Jones Co. Once my four brothers were working for the firm, my father began to think about the next generation. I’ve never known whether it was my father or my brothers’ doing, because my father always told me “it was your brothers’ generosity”, but at some given moment my father began to consider the possibility of me being a part of the family business as a shareholder.” (Laura, 5th Gen.)*

The advisory board discussions also triggered the creation of a board of directors, although this meant making the advisory board redundant.

*“They told us we needed a board of directors, something more structured, more professional, more formalized, more like a decision making body, and not simply an advisory one. They themselves saw the need for this change [of replacing an advisory board with a board of directors].” (John, 5th Gen.)*

*“Everything we did was thoroughly discussed with [the advisory board].” (John 5th Gen.)*

With regard to involvement in management positions, the four brothers reintroduced a clear division of labor. By focusing on a specific area of the business they created four general management positions that would not interfere with their father’s decision making area. Albert was in charge of sales and institutional relationships; Bryan joined the production plant, dealing with logistics, engineering and environmental issues; Brad took over administration and the commercial areas; and John focused on corporate law and human resources. The children had the freedom to introduce changes based on trust and self-coordination. The siblings started working together as a team, supporting each other in the different changes they needed in their respective areas.

*“Albert was the first to identify the need for change, but my father did not pay much attention to what he was trying to do, so he needed someone else’s support. When they hired me, he asked me to give him a hand and between the two of us we began to introduce changes in the chemical plant. This story was repeated with my other two brothers, Brad and John… Among the brothers, perhaps unconsciously, we were defining our strategy as brothers… You talked with one brother, then another, we would talk amongst ourselves.” (Bryan, 5th Gen.).*

The board of directors was created as a result of strategic changes proposed by the brothers and it was composed of Albert (4th Gen.), the four fifth generation boys (Albert, Bryan, Brad, John) and three independent board members. The profile of the independent members was appropriate for achieving the high degree of decision making and strategic thinking the family was looking for. Discussions within the board triggered the next strategic plan in which subsequent decisions were made. At this point the brothers decided to transition from four general managers to two co-CEOs. This brought in new roles. On the one hand the father (Albert, 4th Gen.) moved up to the board of directors leaving management in the hands of the children. On the other hand, two of the brothers stepped down from management to get involved in the board of directors. Finally the family opened the firm’s equity to an outside investor and the new owner became a board member as well. None of these decisions were easy, first because the first male born tradition was broken, introducing equality among brothers, then equality was broken moving from four to two general management positions, the patriarch stepping down from his function, and incorporating Laura as board member regardless of her gender and lack of business background.

*“The idea of incorporating my sister in the board of directors had to do with the fact that we did not have a family council. So we thought maybe it is good that she attend the board of directors meetings so she can become informed and get to know the company” (John, 5th Gen.)*

The last changes included moving towards a sole CEO, first a family member and finally a non-family member. The board of directors changed again as of 2013, with the incorporation of an external CEO. The role of the board of directors has changed from monitoring a family member to supervising a non-family member. The father has stepped down from the board of directors as well.

*“In theory monitoring a CEO, whether it is a family or a non-family member, is the same for the board of directors. The reality is that it is not the same for us family board members, nor for independent members, who have to monitor a family CEO, compared to a non-family CEO. It feels like a different role.” (John, 5th Gen.)*

**Analysis**

Family businesses deal with intergenerational issues constantly, particularly because of the overlap of the family and business systems, with family and business goals needing to be reconciled. Family businesses need to make decisions sometimes based on conflicting interests from diverse actors (Wade-Benzoni & Plunkett-Tost, 2009). Corporate governance structures are meant to contribute to business prosperity (Keasey et al., 1997) and this has been the case for the family business in our case study, which has put in place a set of structures and processes that allow the family to manage and control the business efficiently for the long-run (Neubauer & Lank, 1998). It is important for such mechanisms to reflect the complexity that derives from the interaction of the business and family systems, addressing both the need for increased formal control and the need to preserve and foster cohesion and a shared vision (Corbetta & Salvato, 2004; Mustakallio et al., 2002). Through a gradual evolution, the Jones family has indeed been able to undergo a slow but steady introduction of corporate governance structures, whilst maintaining a shared vision and avoiding explicit conflict among family members. In fact the family business did not have any formal corporate governance structures or mechanisms until the fourth generation. Although family complexity started increasing, until then a lack of formal structures was compensated by norms and traditions, based for example on respect and authority by the family members towards the incumbent generation. Although there is evidence of power asymmetry between generations, these have been mitigated by the strong, prevalent informal norms and traditions, such as the father making the final strategic decisions, first born males becoming successors, and women being kept out of the business.

Traditions and values play a critical role in the development of family businesses (Parada & Viladas, 2010). In Jones Co., we observe that over five generations there has been a strong focus on the value of hard work and the value of education, and all family members have been encouraged to pursue a career that could contribute to the development of the business in a complementary way. This intertemporal dimension has conditioned the way the business has developed, as family involvement in business was taken for granted due to the early preparation of family members to join the company.

As family complexity increases, the diversity of individual goals becomes inherent in the family business (Kotlar & De Massis, 2013), as observed in the fourth generation. Goal diversity leads to intergenerational issues that can be dealt with best when there are good communication channels. As observed in the fourth generation, there was a lack of communication between incumbent and new generations (Ibrahim et al., 2001), although this was finally resolved with the agreement on the creation of an R&D lab and ultimately a change in business model, which led to the continued success of the family business. There was also potential conflict arising among the growing number of new generation members but this trade-off ultimately resulted in the decision to reduce family involvement in the family business and to prune the family tree.

Even with a growing number of family members, Jones Co. was able to maintain several societal and familial values ingrained in the family business. One value that had historically allowed to reduce family complexity was excluding women from the business. While this has been a functional decision to protect the business from the growth of the family, the business has also suffered from the privation of talent and leadership that could have emerged from involving the large number of female family members. The value of the first born has also been useful to protect the business from goal divergence and therefore status quo or even destroying value from the family business. This has been a functional way of creating order and has been built around respect and trust, aligning collective interests in detriment of personal interests. We observe altruistic behavior from the family members who accepted their role in the family business and supported the heir. Both family traditions (exclusion of women and first born heir) were broken in the fifth generation, as they were no longer functional given the external context and changing times (Parada, Nordqvist, & Gimeno, 2010). For the father this decision represented a trade-off aimed at leaving space for his children. In other words, we observe an altruistic behavior towards the next generations (Schulze et al., 2003).

With the fifth generation, professionalization of the family business became a key decision as the business grew and a new generation came onboard (Gimeno & Parada, 2014). Jones Co. became more professionalized thanks to the CEO’s educational background, and his awareness of the possible conflicts when there is no structure to support the increasing involvement of family members. While professionalization started in the fourth generation with the creation of an advisory board, it has been the fifth generation who has really changed the management and governance practices in the family businesses. These changes have led to a transformation in the roles of the siblings and also of the father.

**Discussion**

In Figure 1 we illustrate how literature on intergenerational relationships can help us shed light on family business governance. The matrix shows, on one axis, intergenerational decisions faced by the Jones family throughout the generations, distinguished into ethical (‘what should be done’) and economic (trade-offs) decisions. On the other axis we have included another dimension of intergenerational decisions, namely whether they refer to interpersonal or intertemporal factors.

- - - Insert Fig. 1 about here - - -

In terms of intergenerational and intertemporal dilemmas, there has been a prevalence for the family to focus more on intertemporal dilemmas, based on decisions that are made now and whose outcomes are in the future (Wade-Benzoni & Plunkett-Tost, 2009). However, in general, intertemporal decisions are driven by a temporal delay between decisions made in the present and their effect in the future, and, because individuals discount the value of future resources, they normally prefer immediate rather than future consumption (Wade-Benzoni & Plunkett-Tost, 2009). Instead, what we witness in our case study is the prevalence of intertemporal decisions that are focused on the future consumption of resources by future generations, rather than on discounting the value of such resources, with the overarching objective of benefiting the family as a whole and in the long term. This indicates that the family has always had a strong focus on the long term future and prosperity of the family business, throughout the generations and despite the increasing family, business and environmental complexity. Such focus is likely due to the family’s solid and resilient basis that is grounded in family traditions and values.

This is corroborated by the fact that most intergenerational decisions (made by actors in one generation and affecting others in another generation) have been characterized by a focus on ‘what should be done’ rather than on trade-offs between generations. This has been driven by a strong sense of continuity across generations, reducing potential conflict because of limited perceived differences in how resources should be allocated. The incumbent generation has also felt a responsibility towards future generations, based on ethics, moral reasoning and societal norms rather than economic considerations (Wade-Benzoni, 2002). In other words there is evidence of ‘intergenerational beneficence’, with the incumbent generation willing to sacrifice their own self-interest for the benefits to be enjoyed by the next generation (Wade-Benzoni & Plunkett-Tost, 2009). Although there is evidence of power asymmetry between generations, with the incumbent generation making decisions based on norms such as first-born heir or exclusion of women, at the same time the affinity among family members has allowed them to feel empathetic toward each other and connected with future generations (Cialdini, Brown, Lewis, Luce, & Neuberg, 1997; Wade-Benzoni & Plunkett-Tost, 2009). Thanks to such affinity, there has been a sense of closeness that has allowed individuals across generations to take on each other’s perspective (Aron & Aron, 1986), ultimately reducing potential for conflict.

Over time, we can observe a shift in focus from ethical (‘what should be done’) to economic (trade-off) type of interests (Wade-Benzoni & Plunkett-Tost, 2009), especially in the fourth and fifth generations. This has been due to a shift in the main driving force, away from (family and societal) norms and traditions and more towards economic trade-offs. This is likely due, on the one hand, to the growth and increased complexity of the business, which have forced the family to focus less on family and more on business priorities, and on the other to the increased professionalization of the family business, which has ultimately led to hiring the first non-family CEO. The creation of a board of directors with formal powers, of the first ever written strategic plan, and of a family constitution in the fifth generation all seem to confirm this hypothesis.

By bringing a novel theoretical framework focusing on intergenerational issues, this study contributes to the literature on corporate governance in family businesses, which has previously mostly focused on resources, processes and structures. Through our analysis of the dynamics of intergenerational members within governance structures, we highlight intergenerational relationships, which are important for leadership continuity and long-term success of the family firm. First, our study contributes to the family business field by shedding light on the decisions and outcomes derived from family dynamics around governance structures, which need to reflect the complexity deriving from the interaction between business and family systems. The dynamics we observe in this case show how these governance structures respond to various needs (Corbetta & Salvato, 2004; Mustakallio et al., 2002), that range from formal control, to ensure monitoring to more social and relational controls in order to promote cohesion and a shared vision (Mustakallio et al., 2002), as new generations come on board and their involvement in the businesses grows. Second, we contribute to the literature on intergenerational decisions and dilemmas by building on prior work that has combined intertemporal and interpersonal dilemmas (Wade-Benzoni & Plunkett-Tost, 2009) and contextualizing the analysis of the idiosyncratic outcomes of such combination of decisions within a family business. Finally, our study contributes to the growing, yet still limited, trend in the family businesses field for more longitudinal studies, which are key to improve understanding of the relationships among constructs and to allow family business scholar to move towards a deeper and more thorough understanding of family business phenomena (Evert, Martin, McLeod, & Payne, 2016; Zahra & Sharma, 2004).

This study does not come without limitations. First, the study relies on a single case, showing a reality that cannot be necessarily replicated nor can be generalized (Yin, 2009). Thus, the interesting insights derived from the matrix about intertemporal decisions could be further explored by means of multiple case studies to allow for cross-case comparisons (Yin, 2009) and more systematic analysis of the data (Eisenhardt, 1989). Bringing new cases may also highlight the heterogeneity among family businesses showing that these dynamics may differ from family to family depending on contextual factors such as values, generation in charge, complexity and even level of cohesion among generations. Second, we had more interviews with the key informant than with the other family members. The study could bring more and new emergent factors and thus could be further enhanced by interviewing again all family members in addition to the key informant. Finally, our study is limited to a single country. Whereas this has been a common trend in family business governance research (e.g. Bettinelli, 2011; Mustakallio et al., 2002; Van den Berghe & Carchon, 2002), studying intergenerational issues in different cultures can bring new insights as to which aspects prevail, and whether these aspects change depending on the culture and institutional context.

Our findings suggest further avenues for research. First, scholars may want to explore intergenerational issues not only in the board of directors but also in other governance bodies, such as the family council, or the executive committee, where family members are present and interact, making different decisions related to the family and to day to day operations respectively. Thus the type of decisions and the type of dynamics may vary accordingly. Second, our theoretical framework can be used to investigate intergenerational decisions in a more fine-grained way, by looking more specifically at factors such as number of generations involved, roles of each generation, age and gender of individuals in each generation, and so on. Specifically studies could take on a multilevel approach by considering individuals, who are grouped into generations, who are in turn grouped into different areas of responsibility and roles (e.g., ownership or management) within the family business. Third, we open the door for more studies using this framework to understand intergenerational issues at different moments in time and specifically in times of (family and/or business) crisis, succession, growth, and so on. Finally, propositions can be developed from our conceptual model, which can then be empirically tested. As an exemplification, and not wanting to be exhaustive as it would be beyond the scope of our chapter, the following propositions could be derived:

Proposition 1. In family businesses intertemporal decisions focus on the future (rather than present) consumption of resources by future (present) generations, with the overarching objective of benefiting the family as a whole and with a long-term perspective.

Proposition 2. In family businesses intergenerational decisions focus more on ethical than on economic outcomes, promoting a sense of continuity across generations and reducing conflict regarding resource allocation.

Proposition 3. Over time, as family businesses grow and professionalize, intergenerational decisions shift in focus from ethical to economic types of intergenerational interests and decisions.

In terms of practical implications our study can be helpful for incumbent generations of family business owners and managers as it highlights trade-offs between different types of decisions as well as their consequences for future generations. Therefore, our insights can guide different generations involved in a family business as they navigate through the challenging succession process.

**Concluding remarks**

In this chapter we propose a theoretical model that brings together literature on family business governance with studies of intergenerational relationships, in order to contribute to our understanding of governance structures and relationships in family businesses. Through a qualitative approach based on an in-depth, longitudinal case study of a 180 year old family business, which we followed for 10 years, we focus on two dimensions of intergenerational decisions: ethical vs. economic and interpersonal vs. intertemporal. Our findings show, first, that the dilemmas faced by the family throughout the generations have increasingly focused away from ethical towards economic interests, as both family and business have grown in complexity; and, second, there has been a prevalence of an intertemporal over an interpersonal dimension, specifically on decisions made in the present and whose outcomes are in the future, suggesting that the family has consistently had a strong focus on the long term future and prosperity of the family business throughout the generations despite the increasing family, business and environmental complexity, likely due to its solid and resilient grounding in family traditions and values.

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**Figure 1: Theoretical framework**



1. All names have been changed to protect the anonymity of the family business and members. [↑](#footnote-ref-1)