Three Essays on Corporate Governance of Family Firms

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A Thesis

In

The John Molson School of Business

Presented in Partial Fulfillment of the Requirements

For the Degree of

Doctor of Philosophy (Business Administration) at

Concordia University

Montreal, Quebec, Canada

July 2017

CONCORDIA UNIVERSITY
SCHOOL OF GRADUATE STUDIES

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By: Tarek El Masri

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Doctor Of Philosophy (Business Administration)

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Abstract

Three Essays on Corporate Governance of Family Firms

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This dissertation is comprised of three essays on issues related to the corporate governance of family firms. The first essay explores how owners-managers of family firms conceptualize and define their firms. Understanding the essence of a family firm helps us better understand their governance and behaviour. This essay contributes to the family business literature by presenting the seven most important criteria in identifying a family business (Handler 1989; Shanker & Astrachan 1996), namely: family ownership, control, involvement, succession, long-term vision, founders' legacy, and extended family of employees. The essay also contributes a familiness measurement tool that can be used in future research aiming at better understanding the family firm.

The second essay investigates how management control technologies are calibrated in accordance with the sometimes conflicting economic and noneconomic goals resulting from the dual identities of family firms. The results show that family firms calibrate pervasive management control technologies, such as calculative, family-centric or procedural controls to strengthen the business identity and reduce the family identity of their family business. In comparison, the minimal use, or perceived absence, of management control technologies suggest that it accentuates and fosters family identity. Hence, reverting to management control technologies becomes related in a unilateral way to the business identity of the firm, despite the dual control ambition of family firms.

The third essay analyzes CEO and TMT compensation practices to identify patterns that can explain the gap between family firms and the pool of external highly qualified executives. The data analysis highlights a connection between the degree of family ownership, the composition of the BOD, and the identity of the CEO. The results also show that family firms rely more heavily on cash-based awards than on equity-based awards as a form of CEO and TMT compensation. Family firms are reluctant to use option-based rewards and the use of share-based awards is also kept at a minimum. Other evidence point towards a role that institutional ownership plays in restructuring the compensation packages of the TMTs at family firms.

Keywords: Family Firms, Definition of Family Firms, Family Firm Identity, Management Control Technologies, Corporate Governance, Executive Compensation

Acknowledgments

To my Co-Supervisors Professor Emilio Boulianne and Professor Michel Magnan, and my thesis committee members Professor Matthäus Tekathen and Professor Claude Laurin, the completion of my PhD studies would have not been possible without your unwavering support. You have taught me much more than I could reflect in a dissertation, and for that I will forever remain grateful.

I am also thankful to everyone in the accountancy department at John Molson School of Business for all their support and guidance. Namely, to the Chair of the Accountancy Department Professor Charles Draimin, Professor Isabelle Dostaller, Ms. Daniéle Berthiaume, Ms. Silvana Mendicino, Ms. Carmen Kuczewski, Ms. Karen Fada, all the faculty members, and all my fellow PhD students thank you for always opening your doors for me whenever I came asking for help.

I thankfully acknowledge the financial support from the Stephen A. Jarislowsky Chair in Corporate Governance (Concordia University), the Institute for the Governance of Private and Public Organizations, the CPA Research Center in Accountability at the John Molson School of Business (Concordia University), the Bell Research Centre, the National Bank Initiative in Entrepreneurship and Family Business, and Concordia University. I am also thankful to all the family firms' owners-managers who took the time to participate in my research. Without your generosity, this dissertation would have not seen the light.

Last, but by no means least, words cannot describe my gratitude to my beloved family and friends for their never-ending support and encouragement. To my brothers and sisters, Marwan and Abir, Khaled and Dana, Nisrine and Ahmad Salam, and to my late father who left us early but never stopped watching over us from heaven: I love you.

To my heroine, my mother, Amneh El Kurdi, I dedicate this to you.

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Chapter 1 – Introduction

Our motivation to study family firms springs from the practical importance of better understanding this business phenomenon which makes up much of the world's economy. According to the family firm institute, family business generates an estimated 70% to 90% of the annual global gross domestic product (GDP) (http://www.ffi.org/page/globaldatapoints). In Canada, for example, family-owned businesses generate approximately 60% of Canada's GDP and employ 6 million workers while also creating 70% of all new jobs in North America. The importance of family firms is also reflected in several tax and government measures which are in place to favour family businesses, such as a lower tax rate for Canadian-controlled small firms, an exemption on the capital gain tax that would be owed upon the sale of a business for up to $800,000 in capital gain, differential reporting for preferred shares issued as part of estate tax planning, ability to transfer firms tax free to children through a tax-planning arrangement, etc. Moreover, all Big 4 accounting firms publish a yearly guide offering advice for families and individuals on tax and succession planning. These government and private practice measures imply, either implicitly or explicitly, that it is good for society to allow family firms to perpetuate themselves.

Despite the significant importance of family firms to the local and global economies, it is only recently that management accounting researchers have turned their attention to the family dimension as a determinant of business phenomena (Prencipe et al. 2014). The opportunity to contribute to the young and growing field of accounting research in family business is another motivation behind this dissertation. This potential growth in research is apparent in the increased number of publications (for example the Qualitative Research in Accounting and Management special issue on Family Business in 2017, The Economist special report on family business in 2015 and Family Business Review special issue on accounting research in family business in September 2010) where the authors have repeated their calls for more accounting research in family business.

This dissertation aims to shed some more light into three interrelated issues in the realm of family firms' corporate governance. The first essay investigates how owners-managers of family firms conceptualize and define their firms. The definition of family firms has always been the subject of scholarly debate (Chrisman et al. 2012; Chua, Chrisman & Sharma 1999; Deephouse & Jaskiewicz 2013; Shanker & Astrachan 1996). To date, a unified definition of the term “family firm” still eludes all scholars interested in studying companies operating in the special setting were the two systems of the family and the business interact and, often, compete. According, we go inside the family firm and uncover its defining aspects from within. The second essay investigates how owners-managers of family firms view and reconcile their use of management control technologies with the identity of their firm. A unique characteristic of family firms is their dual “family-business” identity, in other words, the interaction of family and business systems (Ensley and Pearson, 2005; Habbershon and Williams, 1999; Habbershon *et al.*, 2003; Sundaramurthy and Kreiner, 2008; Zellweger *et al.*, 2010). Such an interaction can lead to tensions between the economic imperative of the business system and the emotional wealth imperative of the family system. Accordingly, we examine from within our sample of family firms whether and how management control technologies are calibrated to fit into the dual identities of family firms. The third essay considers the relationship between family firms’ ownership, their board of directors (BOD) formation, the identity of their hired chief executive officer (CEO), and the compensation packages of their top management teams (TMT). A family firm will potentially suffer from reduced access to the external executive managerial talent pool because of motivation and compensation problems (Chua et al., 2009). Consequently, we look for trends in family firms’ executive compensation practices that may be behind this disadvantage.

Altogether, this dissertation investigates important issues related to the corporate governance of family firms. Specifically, the three essays address the following research questions:

1- What does family mean in a family firm?
2- How management control technologies are calibrated to fit into the dual identities of family firms?
3- What are the trends in executive compensation practices behind family firms’ disadvantage in accessing the talent pool of external executives?

In the first essay, we examine the essence of what constitutes a family firm. The way a family firm is perceived and defined affects its governance, the role of its directors, and the decision-making process. Accordingly, understanding the building blocks of a family firm helps us better understand their governance and behaviour. To answer the first essay's research question, we conduct semi-structured in-depth interviews with the founders or owners-managers of 20 family firms based in Quebec, Canada. Theoretically, we adopt the three dimensions of familiness as defined by Habbershon & Williams (1999) and Zellweger, Eddleston, and Kellermanns (2010) as an analysis tool to capture the identities, the components, and the essence of family involvement in our sample family firms. The findings of this paper and its contributions to the literature are three-fold. First, this paper contributes to the family business literature by presenting the seven most important criteria in identifying a family business (Handler 1989; Shanker & Astrachan 1996), namely: family ownership, control, involvement, succession, long-term vision, founders' legacy, and extended family of employees. We also use these seven defining aspects to propose a familiness measurement tool that can be used in future research aiming at better understanding the family firm. Third, we use Simons' levers of control (Simons 1990, 1995, 2000) as an alternative analysis tool to shed light on the important effect the owner-manager's definition of their family firm has on its management-controls system. We find that the definition of a family firm acts as a management-control tool embedded in the belief system, and can also affect setting the control system of the firm.

In the second essay, we focus our attention on revealing how management control technologies are calibrated in accordance with the sometimes conflicting economic and noneconomic goals resulting from the dual identities of family firms. Several studies illustrate the strategic decisions and actions of family firms, which trade an economic imperative for an emotional wealth imperative (Berrone *et al.*, 2012; Deephouse and Jaskiewicz, 2013; Gómez-Mejía *et al.*, 2010, Gómez-Mejía et al., 2011) to preserve their stock of accumulated socioemotional wealth. Socioemotional wealth refers hereby to the "nonfinancial aspects or "affective endowments" of family owners" (Berrone *et al.*, 2012, p. 2), such as control and influence by the family, identification with the firm, binding social ties, emotional attachment, and dynastic succession (see Berrone *et al.*, 2012). The context of family firms not only provides an economically relevant empirical setting for scholars, but foremost a rich empirical setting for examining how management control technologies are adapted considering two simultaneously active – sometimes competing – identities and their respective logics of economic rationality and familial affectivity. To answer this question, we conducted a qualitative interview-based study with 20 Canadian family firms, varying in size, industry and governance characteristics. In these firms, we interviewed the owner-manager about their family firm's objectives and use of management control. Our results show that family firms calibrate management control technologies for particular purposes with reference to their family-business identity. Calibrating more pervasive technological controls inside the family firms, such as using calculative, family-centric or procedural controls is viewed as strengthening the business identity and as reducing the family identity of their family business. In comparison, our interviewees' narratives on the minimal use, or perceived absence, of management control technologies suggest that it accentuates and fosters family identity. Hence, reverting to management control technologies becomes related in a unilateral way to the business identity of the firm, despite the dual control ambition of family firms. The second essay also illuminates how management control technologies are perceived to influence the identity of family firms.

In the third essay, we analyze the CEO and TMT compensation practices at five Canadian family firms to identify patterns that can explain the gap between family firms and the pool of highly qualified executives. Family firm's limited access to the external managerial talent pool has been proposed by several researchers (e.g. Carney, 2005; Chua et al., 2009; Schulze et al., 2001) based on the observation that family firms frequently reserve the CEO position for a family manager thus limiting the advancement of nonfamily managers (Chua et al., 2009). For executives below the CEO, the potential for promotion is an additional source of incentives (Guay et al., 2002). While measuring motivation may be difficult, we look for trends in how family firms compensate their CEOs and TMTs. Our data analysis highlights a connection between the degree of family ownership, the composition of the BOD, and the identity of the CEO. We also reveal a pattern in family firms' executive compensation. Our analysis shows that family firms rely more heavily on cash-based awards than on equity-based awards as a form of CEO and TMT compensation. Family firms are reluctant to use option-based rewards and the use of share-based awards is also kept at a minimum. Other evidence from our cases points towards a role that institutional ownership plays in restructuring the compensation packages of the TMTs at family firms. In conclusion, our observed trends in BOD formation, CEO assignment, and executive compensation can explain the gap between family firms and the pool of highly qualified executives and, eventually, can help bridge this talent gap, retain professional skilled managers and remain successful.

The rest of the dissertation is organized as follows. The next three chapters present the three essays. The fifth chapter covers the conclusion, limitations, and directions for future research.

Chapter 2 – Defining the Family in Family Firms

Abstract

A unified definition of the term "family firm" still eludes all scholars interested in studying companies operating in the special setting were the two systems of the family and the business interact and, often, compete. Over the past decade or so, the focus of the definition problem has shifted from dichotomous definitions aimed at separating family from non-family firms to more articulated definitions that allow distinguishing between various types of family firms. Henceforward, a general agreement has emerged among management scholars that dichotomous definitions should be avoided (e.g., Deephouse & Jaskiewicz 2013). This essay investigates how owners-managers of family firms conceptualize and define their firms.

To answer this question, a qualitative study of 20 family firms was conducted using semi-structured in-depth interviews with owner-managers and drawings of mental maps. Theoretically we adopt the three main constituents of the concept of familiness as defined by Habbershon & Williams (1999): the components of family involvement and the essence of such involvement presented by Chrisman, Chua and Sharma (2005) and the organizational identity added as a third dimension to familiness by Zellweger, Eddleston, and Kellermanns (2010), as an organizing and not constraining tool for our analysis.

The findings of this paper and its contributions to the literature are three-fold. First, this paper contributes to the family business literature by presenting the seven most important criteria in identifying a family business, namely: family ownership, control, involvement, succession, long-term vision, founders' legacy, and extended family of employees. We also use these seven defining aspects to propose a familiness measurement tool that can be used in future research aiming at better understanding the family firm. Second, this paper contributes to the theory-building aspirations of the field of family business. We present several challenges to the socioemotional wealth (SEW) theory in the family firm setting. Third, we use Simons' levers of control (Simons 1990, 1995, 2000) as an alternative analysis tool and find that the definition of a family firm acts as a management-control tool embedded in the belief system, and can affect setting the interactive control system of the firm.

Keywords: Family Firms, Definition of Family Firms, Corporate Governance, Management Control

2.1. Introduction

This paper investigates how owners-managers of family firms conceptualize and define their firms. The definition of family firms has always been the subject of scholarly debate. To date, a unified definition of the term "family firm" still eludes all scholars interested in studying companies operating in the special setting were the two systems of the family and the business interact and, often, compete. Without a definition to distinguish family firms from their non-family counterparts, research regarding their prevalence and economic contributions is difficult (Shanker & Astrachan 1996). This problem of not having a common definition of a family firm becomes more pronounced, for researchers and practitioners alike, when we try to aggregate results from existing quantitative economic studies. All operationalized definitions are externally set based on quantitative criteria. For example, different family firm studies have considered different percentages of ownership, such as 5%, 10%, 20%, or even 50% of votes controlled and/or shares owned by one family or one person, as cut-off points to classify the company as a family firm. In some research, the definitions used to qualify a business as a "family firm" were vague or entirely overlooked (Shanker & Astrachan 1996). In other cases, researchers classify a company as a family firm when the family both owns and manages the business (Chua, Chrisman & Sharma 2003). But the nature of family firms, what makes family firms different, is the coexistence of the family part in the business, and that is not a quantitative component. Hence, capturing the singular essence of the family taking part in making the family firm, a qualitative concept that is not easily quantifiable, still eludes us.

Several tax and government measures targeting family firms also reflect the effect of the absence of a common definition of family firms. Previous theoretical and econometric research suggests that "estate taxes depress business growth and investment (Wagner [1993]; Fleenor and Foster [1994])" (Astrachan & Tutterow 1996, p. 303). The effect of estate taxes upon family firms may be particularly noticeable on business growth and survival, job creation, and capital investment (Astrachan & Tutterow 1996). Today, several tax and government measures are in place presumably to favour family businesses, such as a lower tax rate for Canadian-controlled small firms, an exemption on the capital gain tax that would be owed upon the sale of a business for up to $800,000 in capital gain, differential reporting for preferred shares issued as part of estate tax planning, ability to transfer firms tax free to children through a tax-planning arrangement, etc. Moreover, all Big 4 accounting firms publish a yearly tax guide offering advice for families and individuals on retirement planning, estate planning, charitable tax planning, gift planning, and succession planning. These government and private practice measures imply, either implicitly or explicitly, that it is good for society to allow family firms to perpetuate themselves. But these measures share the same problem as research focused on so-called family firms: they use definitions of what constitutes a family firm that may or may not be consistent and raise concerns as to what is being targeted.

Although a dichotomous approach is still common in empirical studies, especially outside the management literature, a growing number of scholars have started to recognize that family firms are quite heterogeneous on various aspects (e.g., Chrisman et al. 2012; Chua, Chrisman & Sharma 1999). Hence, there has been a search for a more adequate approach for empirical measurement. Over the past decade or so, the focus of the definition problem has shifted from dichotomous definitions aimed at separating family from non-family firms to more articulated definitions that allow distinguishing between various types of family firms. For example, Bloom and Van Reenen (2007) define the family firm through the theoretical implications of family ownership and the extent of the family's involvement in management. Henceforward, a general agreement has emerged among management scholars that dichotomous definitions should be avoided (e.g., Deephouse & Jaskiewicz 2013).

Examining the essence of what constitutes a family firm has a lot of practical importance. The way a family firm is perceived and defined affects its governance, the role of its directors, and the decision-making process. Accordingly, understanding the building blocks of a family firm helps us better understand their governance and behaviour. Field studies represent a strong opportunity for the accounting community to bridge the gap with practitioners (Malsch & Salterio 2015), as well as with public policy makers. Moving away from externally generated dichotomous definitions, and responding to calls for more field-based research on family firms (Prencipe, Bar-Yosef & Dekker 2014; Salvato & Moores 2010), we try to find the meaning of "family" from inside the family firm. The aim of this paper becomes answering the following question: What does family mean in a family firm? To answer our question, we conduct semi-structured in-depth interviews with the owners-managers of family firms.

Prior research develops the concept of familiness. Rooted in the resource-based view (RBV) of the firm, familiness is defined as the bundle of idiosyncratic internal resources that exist due to the involvement of the family in the firm (e.g., Habbershon & Williams 1999; Habbershon, Williams & McMillan 2003). Zellweger, Eddleston and Kellermanns (2010) suggest that family involvement leads to familiness, which can be viewed as unique, inseparable, and synergistic resources and capabilities arising from family involvement and interactions. Chrisman, Chua and Sharma (2005) offer two dimensions of family involvement that help to explain familiness: the components of family involvement and the essence of such involvement. While the components of involvement approach focus on family ownership and control, setting a minimum threshold of family influence, the essence approach centres on the behaviours and synergistic resources and capabilities a family contributes to a business (Chrisman, Chua & Sharma 2005; Zellweger, Eddleston & Kellermanns 2010). Zellweger, Eddleston, and Kellermanns (2010) add a third dimension to familiness: organizational identity. The organizational identity dimension of familiness reflects how the family defines and views the firm (Zellweger, Eddleston & Kellermanns 2010). Therefore, we choose to use the three main components of the concept of familiness as an organizing and not constraining tool for our analysis. We keep an open mind while analyzing the information provided by our interviewees to identify the subcomponents of familiness and other important factors making up the definition of the different family firms in our sample.

In order to capture the diversity in family firms' organizational identities, we conduct a qualitative interview-based study with 20 family firms, varying in size, industry, and governance characteristics in Quebec, Canada. At these firms, we interview the founder or owner-manager about their family firms. We chose to interview the founder/owner-manager of the family firm because family members usually play multiple roles in governing and managing the firm, and they often make the most important executive decisions (Arregle et al. 2007; Gallo & Sveen 1991; Mustakallio, Autio & Zahra 2002; Tagiuri & Davis 1996). Theoretically, we adopt the three dimensions of familiness as defined by Habbershon & Williams (1999) and Zellweger, Eddleston, and Kellermanns (2010) as an analysis tool to capture the identities, the components, and the essence of family involvement in our sample family firms. The findings of this paper and its contributions to the literature are three-fold. First, this paper contributes to the family business literature by presenting the seven most important criteria in identifying a family business (Handler 1989; Shanker & Astrachan 1996), namely: family ownership, control, involvement, succession, long-term vision, founders' legacy, and extended family of employees. We also use these seven defining aspects to propose a familiness measurement tool that can be used in future research aiming at better understanding the family firm.

Second, this paper contributes to the theory-building aspirations of the field of family business. The discussion section presents several challenges to the socioemotional wealth (SEW) theory in the family firm setting (Gómez-Mejía et al. 2007; Gómez-Mejía, Makri & Kintana 2010; Berrone, Cruz & Gómez-Mejía 2012). For example, our results identify several scenarios where the owners-managers of family firms do not prioritize their SEW, represented by the family, over their economic wealth, represented by the business, as the SEW would suggest. We also find that, even though keeping the family name up on the door is of utmost importance to the owners-managers of family firms, they prefer to sell the business in cases when they could not find a family member to succeed them in leading the firm. In our discussion, we also challenge the definitions of family firms operationalized in extant research as our field-generated findings highlight the importance of various defining factors that are internal to a family firm and go deeper than the externally observed percentages of family ownership and control.

Third, this paper contributes to the management-control literature. We use Simons' levers of control (Simons 1990, 1995, 2000) as an alternative analysis tool to shed light on the important effect the owner-manager's definition of their family firm has on its management-controls system. We find that the definition of a family firm acts as a management-control tool embedded in the belief system, and can affect setting the interactive control system of the firm.

Our paper is structured as follows. In the next section, we provide some conceptual underpinnings to our inquiry, mostly by discussing existing definitions of the family firm and how these definitions are operationalized in existing research. We then review the literature on the dual identity of the family firm and the concept of familiness and what they present in alternative viewpoints of the family firm. The third section presents the research approach for our qualitative inquiry. Afterward, we provide some key empirical insights from our interviews and discuss our results before we end the paper with our concluding remarks.

2.2. Conceptual Underpinnings: Definition, Dual Identity, and Familiness

2.2.1. Definition of the family firm

One fact that all family business scholars agree on is that we still do not have a unified definition of the term "family business". To classify the company as a family business, different family business studies have considered different cut-off points to be 5%, 10%, 20%, or even 50% of votes controlled and/or shares owned by one family or one person. For example, Mroczkowski and Tanewski (2006) define a family-controlled firm as "an entity controlled by a private individual, directly or indirectly, in conjunction with close family members" (p. 10). To date, this dichotomous approach is still common in many empirical studies, especially those borrowing from theories in economics (Prencipe, Bar-Yosef & Dekker 2014). The following table 1 shows different operationalized definitions of family firms in extant empirical studies:

Table 1: Operational Definitions of Family Firms	Source
A single family that holds majority of shares	Gallo and Sveen 1991
A single family that holds an excess of 50% of ordinary votes	Westhead, Cowling and Howorth 2001
Family member as an officer or director	Anderson and Reeb 2003a
20% family ownership	La Porta et al. 1999
10% or more of shares in the hands of one family	Allen and Panian 1982
5% or more family ownership and one person with family ties on the board	Gómez-Mejía et al. 2003
Family's equity holdings are at least 5%	Chen et al. 2010
Source: Gómez-Mejía et al. 2011.	

In an attempt to solve the family business definition problem, Astrachan, Klein, and Smyrnios (2002) present a family influence on power, experience, and culture (F-PEC) scale as a method to operationalize what is meant by family business. The scale assesses the extent of family influence on a firm through the measurement of three dimensions: power, experience, and culture. The F-PEC scale enables researchers to investigate businesses along a continuum from high family involvement to no family involvement at all (Astrachan, Klein & Smyrnios 2002). The authors test and show the validity of the F-PEC scale on a sample of 1,166 firms (out of 10,000 firms originally contacted) (Klein, Astrachan & Smyrnios 2002). Yet, even though the F-PEC scale proved to serve its purpose of assessing family influence on a continuous scale rather than restrict its use as a categorical dichotomous variable, the scale's use in research did not gain the popularity it deserves. One reason behind the limited use of the F-PEC scale in big sample research projects could be the difficulty of its operationalization. The three subscales require information that can only be acquired from inside the sample family firms. Unlike externally gathered or publicly available information, internally generated information is difficult to acquire and with the current low questionnaires' response rates, using the F-PEC scale as a research tool is very difficult.

Today, a general consensus among management scholars that dichotomous definitions should be avoided (e.g., Deephouse & Jaskiewicz 2013; Prencipe, Bar-Yosef & Dekker 2014) still holds. A growing number of scholars have recognized the heterogeneity of family businesses on different aspects (e.g., Chrisman et al. 2012; Chua, Chrisman & Sharma 1999) and have used a more subjective and less dichotomous way to define a family business. For example, Bloom et al. (2007) define family business through the theoretical implications of family ownership and the extent of the family's involvement in management. This trend of studying the heterogeneity among family firms has contributed to the increasing popularity of the notion of familiness introduced by Habbershon and Williams (1999).

In this study, we choose not to rely on a dichotomous classification of companies based on a set percentage of shares owned or votes controlled by a single person or family. Accordingly, except for two companies, we have approached those who self-identify as a family firm and are registered as such at the Canadian Association of Family Enterprise and asked them to participate in this research. Instead of us judging which company should be classified as a family business and which should not, we ask the owners-managers about their own definition of family business and about the reason why they do or do not identify their firm as such.

2.2.2. Family firms' dual identity and familiness

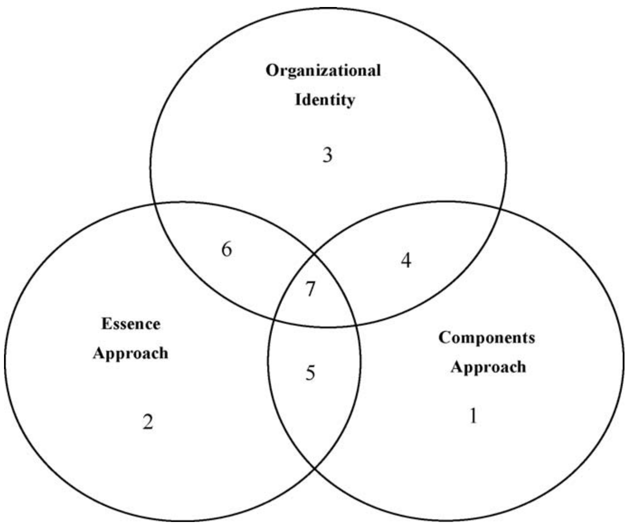
A major stream of family firm research seeks to explain differences between family and non-family firms (Bird et al. 2002; Chrisman, Steier & Chua 2008; Miller, Breton-Miller & Scholnick 2008; Zellweger, Eddleston & Kellermanns 2010). A key reason for family firms' uniqueness and distinctiveness from non-family firms is their dual identity with overlapping family and business systems (Sundaramurthy & Kreiner 2008; Zellweger et al. 2013), or the so-called "familiness" (Ensley & Pearson 2005; Habbershon & Williams 1999; Habbershon, Williams & MacMillan 2003; Zellweger Eddleston & Kellermanns 2010). Rooted in the RBV, the notion of familiness refers to the idiosyncratic "bundle of resources and capabilities resulting from the [family and business] systems interactions" (Habbershon, Williams & MacMillan 2003, p. 451). In other words, family involvement and interaction (Chrisman, Chua & Litz 2003), otherwise known as the "family stuff" (Habbershon & Williams 1999, p. 1), is seen as a distinguishing resource and a source for competitive advantage, contributing to family firms' uniqueness (Chrisman, Chua & Sharma 2005).

Besides explaining differences between family and non-family firms, family firm research also seeks to explain the heterogeneity among family firms (Chua et al. 2012; Westhead & Howorth 2007). Hereby, family firms' dual identity and the notion of familiness have been accentuated, as well, to provide reasons for the salient variety among family firms. For example, different configurations along the "separation-integration" continuum between family and business systems (Sundaramurthy & Kreiner 2008) or varying degrees of familiness in terms of family involvement, behaviour of family members and, organizational identity (Zellweger, Eddleston & Kellermanns 2010) are associated with the heterogeneity in family firms. Also, the ambivalence of the family system, with its potential benefits and drawbacks for the family firm, provides reasons for the variety among family firms (Tagiuri & Davis 1996; Kellermanns, Eddleston & Zellweger 2012).

Family firm research acknowledges that family firms possess two identities, the family, and the business, that can be, to various degrees, segmented and integrated (Klein 2008; Sundaramurthy & Kreiner 2008). On the one hand, some family firms integrate both identities to a greater extent than others in order to use the family aspect as an idiosyncratic resource and capability for enhancing the firm's competitive position (Habbershon, Williams & MacMillan 2003). Positive attributes of the family system, such as transgenerational vision, familiarity, or care (Miller, Breton-Miller & Scholnick 2008) are brought into the business system when both identities are integrated. On the other hand, other family firms consciously detach both identities or even do not perceive the family-controlled firm as a family business (Westhead & Cowling 1998) in order to avoid the "dark side" of family firms (Kellermanns, Eddleston & Zellweger 2012), such as conflict and resentment, or lack of professionalism and objectivity. In that sense, family firms need to decide to what extent they integrate or separate both identities. Then, where the firm lands on the separation-integration continuum appears as a strategic concern that needs to be actively managed, because the dual identity carries both positive and detrimental consequences for family firms (Sundaramurthy & Kreiner 2008; Tagiuri & Davis 1996; Zellweger, Eddleston & Kellermanns 2010).

As mentioned above, the interaction and comingling of the family and business identities provides a potential source of competitive advantage for family firms, which is referred to as familiness (Habbershon, Williams & MacMillan 2003). The notion of familiness has been conceptualized as multi-dimensional. In this respect, Chrisman et al. (2005) suggests that its two dimensions (i.e., components of family involvement and the essence of their involvement) explain familiness. Components of family involvement address the extent to which the family is involved in ownership, management, and control of the firm, and thereby captures the degree of family presence in the family firm. The essence of the family's involvement—or "essence approach"—"centres on the behaviours and synergistic resources and capabilities a family contributes to a business" (Zellweger, Eddleston & Kellermanns 2010, p. 54), as it is argued that family presence in the firm does not automatically translate into family influence. Zellweger et al. (2010) add the organizational identity to the other two dimensions of familiness to capture "how the family defines and views the firm" (*Ibid,* p. 57). The authors argue that unique identities of family firms develop through these three dimensions and their varying degrees of family involvement, exerted family influence, and overlapping family and business systems. These identities are not only unique vis-à-vis non-family firms, but also among family firms. This reasoning underlines the close relationship and enmeshment of the notion of familiness and the dual identity of family firms.

Figure 1: Dimensions of familiness



Adapted from Eddleston (2009). (Zellweger, Eddleston & Kellermanns 2010).

Our literature review of family firms' dual identity and familiness suggests that managing these two interrelated components is an important concern for family firm owners, thus underlining the relevance of more closely examining how they conceptualize their firms through these components. By focusing on and examining the interrelationship between the three different components of familiness, we contribute to this debate. We seek to identify other potential subcomponents of familiness. We also highlight the owners-managers' role in regulating the degree of familiness to reflect their own vision for the family firm and attain both their business and familial goals. In the context of our study, we use the concept of familiness and its three components of family involvement, the essence of family involvement, and the organizational identity as a conceptual framework for organizing and analyzing our data. However, we do not limit our interpretation of the generated insights to these three dimensions.

Below is a table 2 that summarizes our conceptual framework based on the concept of familiness:

<table>
<tr><th colspan="3">Table 2: Familiness</th></tr>
<tr><th>Components of Family Involvement</th><th>Essence of Family Involvement</th><th>Organizational Identity</th></tr>
<tr><td>Ownership</td><td>Behaviours</td><td rowspan="2">Family definition of firm</td></tr>
<tr><td>Control</td><td rowspan="2">Synergistic resources and capabilities</td></tr>
<tr><td>Management</td><td>Family view of the firm</td></tr>
</table>

Sources: Chrisman et al., 2005; Zellweger et al., 2010

2.3. Research Approach

Qualitative research can be conducted using different methods (e.g., Power & Gendron 2015; Hansen 2011). This study embraces a positivistic understanding of qualitative research in which we, the researchers, employ objective research instruments to get closer to the meaning of family in family firms. Since the aim of this paper is to find the meaning of family from within the family firm, carrying out a field study is the best research method choice to answer our research question. Semi-structured in-depth interviews coupled with mental maps drawings are employed as the two primary tools for understanding how the owners-managers of our sample firms conceptualize and define their firms. We use publicly available information about our sample firms as a source for data triangulation only. We believe that publicly available information cannot substitute the data we generate from our field study because it cannot fully reflect the owners-managers' perceptions of their family firms, which we deem as fundamental to answering our research question.

2.3.1. Interviewed family firms

In our field study, we are looking to tap into the knowledge of those who have the required experience, first-hand knowledge, and understanding to provide us with meaningful insights into family firms (Malsch & Salterio 2015). Accordingly, we interview the owners-managers of firms that are based in Canada, and we continue to do so until no new insights are forthcoming. The selection of the 20 interviewed firms is guided by the idea of striving toward maximum variation (Flyvbjerg 2006). As a so-called maximum variation case study, it is then composed of cases that are different, and sometime opposite, in some dimensions, allowing insight into a specific topic (Cooper & Morgan 2008). This technique is usually used in positivistic case studies to strengthen the generalizability of a theory to indicate that it may apply across a wide range of firm cases. We also strive for variation to generate rich and plural field-based insights. Such an approach provides us with an in-depth understanding from within the field. To capture our targeted variation in cases, we revert to the debate on family firms' heterogeneity and use suggested factors such as firm size, industry, and governance characteristics. To identify potential family firms, we use information from the Canadian Association of Family Enterprise. Two out of the twenty interviews were arranged with the help of a referral from interviewees. Even though these two interviewees own a substantial stake and manage their respective companies, they did not label their companies as family firms. We include these firms in our sample as opposite, or deviant, cases (Malsch & Salterio 2015) on the identification as a family firm dimension to gain further insight from them on the definition of a family firm.

Appendix 2 provides some basic information on the firms represented in our study, namely in terms of industry, size, ownership, governance characteristics, and family involvement in management. While most of the firms in our sample are owned by the founder and managed by the founder or by a joint team of founders and next-generation family members, the strong presence of the founder in the business fits with our inquiry about the meaning of the presence of the family in the family firm.

2.3.2. Data collection

Our data collection relies on three sources: semi-structured interviews, drawings of a mental map by the interviewees, and publicly available background information on the interviewed family firms from company homepages, business press, or newspaper articles. Interviews were conducted with the owner-manager as the central figure in influencing the family firm because of their important influence in decision-making (Bjuggren & Sund 2001; Lansberg 1999). Extant literature discusses the crucial role of the founder (or owner-manager) in forming the family firm's identity (Miller, Breton-Miller & Scholnick 2008). Interviews were conducted at the location of the family firm, lasted on average 43 minutes, and were, except for three interviews, recorded and subsequently transcribed. The positions of our interviewees in the family firms are also listed in Appendix 2.

An interview guide underlies the semi-structured interviews and comprises three parts. The first part of the interview focuses on investigating the dual identity of the family firm, namely by asking the interviewee to draw a mental map of how she or he sees the family business. For this, an A3-size paper and a pencil are provided to the interviewee. Our intention is to elicit the interviewee's understanding of the family firm, providing a glimpse into how the owner-manager sees the family firm. We later use the mental maps in our analysis of the family and business identities. Follow-up questions focus on the purpose of the firm, its goals, and its relevant stakeholders. The second part of the interview moves toward the topic of management control, asking questions about how the family firm measures and manages the previously articulated goals, what kind of management controls it uses, and why it uses these management controls. The third part focuses on the family side of the business and involves questions about the firm's ownership and management profile as a means to grasp the degree of ownership and more information on the family involvement in the family firm. Due to the sometimes-limited publicly available information on family firms, this third part includes survey-type questions on the family firm's ownership profile. Our interview guide is provided in Appendix 1. While it provides the general structure for the interviews, the interviews remain open to allow for new lines of discovery, thus leaving enough room for the interviewee to think aloud and report the information she or he finds most relevant (Patton 2002).

2.3.3. Data analysis

Our data analysis comprises two rounds. In the first round, we code the collected data in terms of information on the family firm's identity and with respect to the family ownership and family involvement in management of the family firm. This results in a descriptive understanding of the interviewed family firms. Table 3 below depicts how we code the data for our first round of analysis.

Table 3: Organizing the first round of data analysis

Ownership	% of family ownership
	# of owning families
	Generation owning
	Private vs. Public
	% of family control

CEO	Family/Non-family
	Founder?
	Generation

Management	Founder involved?
	Generation
	# of family members involved
	# of family members not involved, and why?

In our second round of data analysis, we analyze the data to explore how interviewees reason and explain their definition of the family firm. We analyze the family's degree of ownership, involvement in management, the capabilities the family contributes to the firm, and the owner-manager's view of the firm to derive the important defining components of the family firm. For this, we utilize the three dimensions of familiness grounded in RBV theory as an organizing device for our interpretive understanding of the mental map drawings and perceptions derived from our interviewees' answers to our questions. Table 4 below depicts how we use three guiding questions based on the three dimensions of familiness to interpret the collected data.

Table 4: Organizing the second round of data analysis

Components	Essence	Organizational Identity
- What's the percentage of family ownership of the firm? - How many family members are involved in managing the firm? - How many family members are not involved, and why?	- Why are you/family members managing the firm? - Why are other family members not involved in managing the firm? - What resources does the family contribute to the firm?	- How does the owner-manager define the family firm? - What is the firm's reason of existence? - How does the firm differ from a non-family firm?

2.4. Empirical Insights: Defining the Family from Within the Family Firm

2.4.1. Family ownership and family involvement

When questioned about the definition of a family firm, the interviewees brought up family ownership as the first and most important defining feature. Yet, it is never mentioned alone. Family ownership is always coupled with other defining factors such as family involvement in management and plans for family succession, which we are going to discuss, among other topics, in the following sections. For example, the following are some of the answers we got when we asked the question: Why do you think this is a family firm?

> I started the company, and it's my three kids and my wife who are the main stakeholders. They own it too, so this makes us a family business. (Company G1)

> The company is a family business. I work with my wife in it and we own it. (Company R1)

The Co-CEO of company V1 shares how important it is for him to keep the ownership of his business in the family. He sees the continuation of his family ownership of the firm as a guarantee for the continuation of their family culture through their management.

> Does it (referring to the firm) have to be owned by the family? Coming from the first generation, I'm still old fashioned. I still believe in some of our culture. I would like to see (the company) having some family in that role. But at the end of the day, if it isn't, it'd be somebody else's decision. I'm going to try to keep it that way while I'm still here. (Company V1)

When asked about the aspects that differentiate a family firm from a non-family firm, the family CEOs of publicly traded family firms J1 and S2 stress the importance of family ownership and control as fundamental aspects for a company to be called a family firm. Family ownership and control brings the freedom to make whatever decisions the family deems necessary to steer the business in the direction they believe is right.

> My family owns over 50% of the shares, we control still 92% of the vote. We'll do what we want. It's easier to meet as a family and to make decisions, rather (than) in a company with widely held shares, where the mangers are always under scrutiny. (Company J1)

> When you're a family business, you own everything; you can do whatever you want. When you're a publicly traded company, even though you own 50% of the shares, your interests have to be aligned with all of the shareholders. (Company S2)

Family members' involvement in managing the family firm is also discussed by the interviewees as a fundamental defining aspect of the family firm. As simply put by the Co-CEO of company V1 when asked what makes a family firm: "Family businesses are run by their shareholders." The same point of view is shared by the vice president (VP) of company I1. For her, a firm cannot be called a family firm if the family members were not actively involved in managing it.

> We're very involved, you know, very, very involved. I think all family businesses are like that. I think so, or you wouldn't call it a family business. (Company I1)

Per the president of company A2, involving family members enriches the family firm with a unique family culture that is difficult to replicate.

> When the family is involved, then there will be family culture in the business. In my family business, we have this family spirit, which I believe is not usually present at non-family businesses. (Company A2)

A family involvement's role in creating the family business culture resonates with Flamholtz et al.'s (1985) definition of organizational culture as "the set of values, beliefs and social norms which tend to be shared by its members and, in turn, influence their thoughts and actions" (p. 158). Thus, culture becomes a control system when it is used to regulate behaviour (Malmi & Brown 2008). Contrary to the view shared by the president of company A2, research shows that the desired impact of values on behaviour is also achievable through non-family members in the following three ways:

> "The first is when organizations deliberately recruit individuals that have particular types of values which match with those of the organization. The second is when individuals are socialized and have their values changed to fit the organizational values (see Alvesson & Karreman 2004). The third is when values are explicated and employees behave in accord with them, even if they do not adhere to them personally" (Malmi & Brown 2008, p. 294).

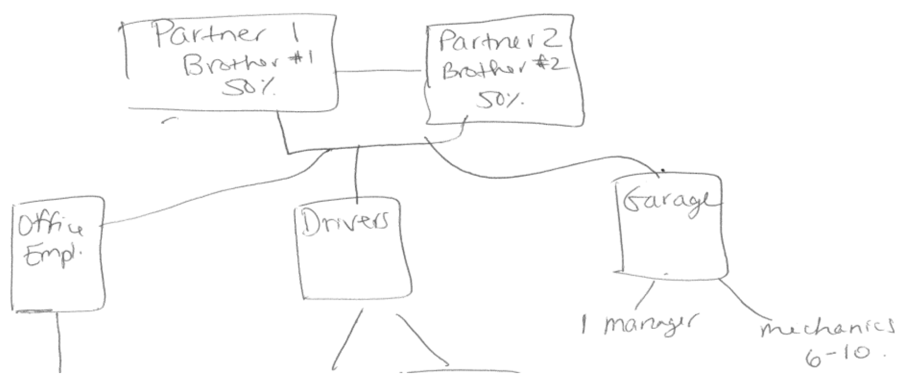
Company V1, quoted below, is an example of a company that purposefully recruited a president who shares the family background, culture, and values, in order to protect and perpetuate the family firm's culture.

> We took a long time; when I hired a president, it was probably the hardest time… We are from (the same) background, so we understand each other. Brilliant guy, loyal to the company, and understood our culture. He didn't get fazed; he understood us. (Company V1)

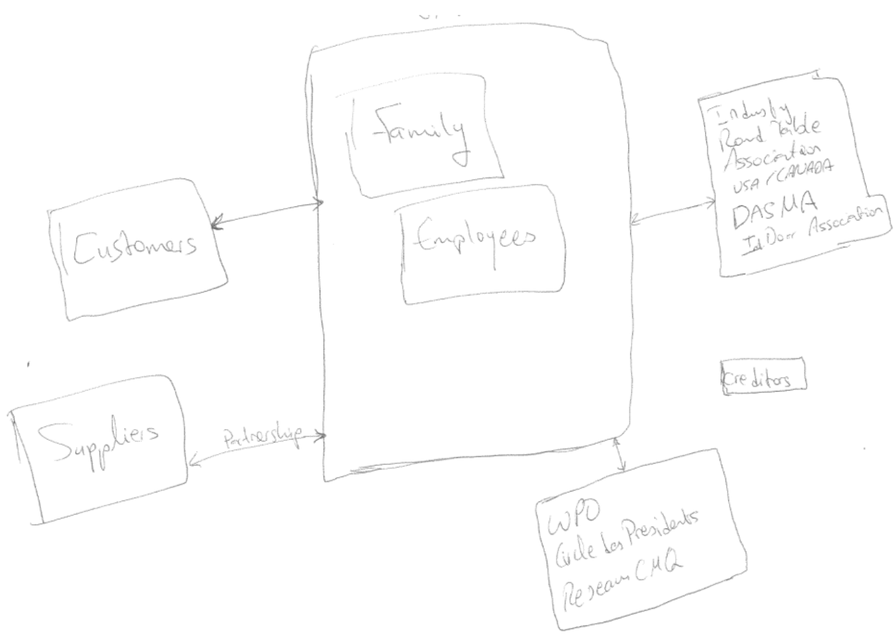
The Co-CEO of company B2 talks about purposefully imbuing her company with her family values, building a whole community around it.

The culture of our company is very important. Every person here lives and breathes our values and the purpose of why we do things… When it's a family business, you tint it with your values. There's a community that's built around our family values. (Company B2)

The mental map below is drawn by the director of company P1. She clearly emphasizes the ownership, as well as the involvement of her father and her uncle, the two equal owners of their family firm.



The drawing below is another example where the president of company G1 places major importance on his family's involvement in his family firm. He shows that by placing all his family inside the internal world of his company represented by the box surrounding the family and the employees. The customers, suppliers, and professional organizations are external stakeholders and thus are all placed in contrast to the family and the employees, outside the box.



So far, our interviews have shown that both family ownership and family involvement are important and different, and one cannot replace or substitute the other. According to the president of company A2, they are the reasons a firm is called a family firm.

> Family ownership and, more importantly, family involvement are the main reasons a business is called a family business. (Company A2)

While family ownership might be a given, it is certainly the prerequisite that opens the door to family involvement in managing the firm. Thus, attaining the right level of family involvement in management becomes an important task to be managed for the well-being of the firm. As explained by the Co-CEO of company B2, maintaining family involvement is what differentiates family firms from non-family firms.

> It depends on whether the family members are involved in the management or not, because you can have a family-owned business and no family members that run it, and that would be very different. (Company B2)

The involvement of family members in the firm's management is a vital defining aspect of the family firm, but having too many family members involved in the family business can be damaging. The CEO of company S2 saw a challenge with the over-involvement of family members in the business. His relatives used to impose their own employment, even if they didn't have much to contribute to the family firm. In order to reduce the negative effect of family involvement, he resorted to making his family firm public. With that, he limited the access of family members to the firm's resources through enforcing the governance of a publicly traded firm.

> When we define (family name) as a family business, there's two tranches: the first tranche was when we were 100% family owned and my uncle or my aunt could have said, I want my son to work there… We controlled it as a family, without having to answer to anybody. Today, no, if the son-in-law is there or… anybody else, well, they all have to have a job and they all have to pay their dues and they all have to contribute to the success. If they don't, they have no more rights than any other employee of the company. (Company S2)

The issue of having too many family members involved in the business, and the difficulties it adds to the governance of the family firm, is also raised by the Co-CEO of company V1. But he had a different solution. Company V1 imposes a one child per family policy. Every one of the siblings from the second generation can have only one of his or her children work for the family firm.

> As the families get bigger, it becomes more complicated. We set a rule here, one child per family. (Company V1)

Similarly, the president and CEO of company C2 articulates his company's policy governing family members' ownership and involvement in managing the firm:

> For us, one of the rules is you cannot be an owner if you don't work in the company. And if you don't do a proper job, you're not going to work in the company, you're going to be let go and then you're going to be bought out. (Company C2)

2.4.2. Family succession

In an attempt to catch more of the essence of the family firm, we asked our interviewees not only what is a family firm and how does it differ from a non-family firm, but also about the future goals of their family firm. The interviewees' answers identified a recurring goal, which is family succession. Succession is always stressed as a defining aspect and a raison d'être for most family firms in our sample. We see that family succession has the same importance for the founders as well as for later generations of family firm owners-managers. For example, the founder and president of company B3 ties the stability of the future of his firm to the involvement of his children in it. He then summarizes it all by saying that his goal is to pass the firm to his children.

> Of most importance is the future to be stable, good, and grow the company and, most important, to get my kids and my brother's kids involved in the business and to teach them to work like us. My goal is to pass the company to our kids. (Company B3)

One of the two founders and the president of company S1 expressed that his company is a family firm because both his son and his partner's son are already working for their firm. He also expresses his understanding of the importance of having a succession plan in place.

> It is a family business because it is tribal. Because both our children are here now, my son and my business partner's son as well. … Five years ago, we hired a consultant to help us with succession. There is a succession plan in place. (Company S1)

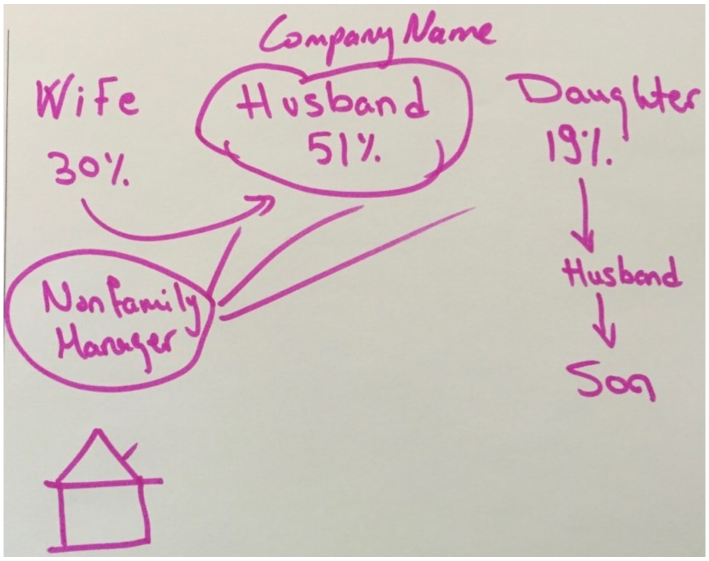
The importance of family succession is also expressed by the second-generation president of company A2.

> There is the family and there is the business and they are often inseparable—they live and feed off each other. I say they live because in family business there is the issue of succession and long-term planning and long-term development, which is not present at non-family businesses. (Company A2)

The VP of company I1, also from the second generation of family owners-managers, tells us about how the founder, her father, "really wanted (her) to take over" (Company I1). She also wishes the same for her son.

> I don't want to pressure him… I would want him to be interested. (Company I1)

This is also clear in the mental map she draws where she places her son under her and her husband's names, clearly pointing toward the succession she wishes for. The son is still younger than 10 years old and obviously has no current role in the firm. The mental map is replicated below to preserve the anonymity of the firm.



Moving on to the third generation, the president and CEO of company C2 described how proud his father is to have him as his successor in managing the family firm. His successful succession left him assured about the future of the family name on the door of their family business.

> (My father) is proud of the concept, continuing in the succession and keeping the family name on the door. (Company C2)

The president and CEO of company G2 is also a third-generation owner-manager. He can feel the challenge of having a sound plan that ensures cross-generational succession and the preservation of a strong family firm. His company had just celebrated its 75th anniversary, but to him, "Doing 75 was not hard. It's doing the next 75 that's going to be" (Company G2).

During the interview, the fourth-generation president of company T1 expected a question about succession when I was asking him about who owns the firm and how many family members are involved in its management. He said:

> "And then your next question's going to be are there plans for them to join the family business? The same criteria are in place, in that they have to have a university degree, which three of them are there now, and then all have to have some other professional

experience outside of the business of at least around 5 years, and then wish to join the company. We are not going to force it or ask of them. They are the ones that, if they express interest, if there's an opportunity, who knows where this is all going to take us, but the plan right now is to go toward the fifth generation" (Company T1).

The owner and CEO of company E1 does not label his company as a family firm, and he justifies that by the absence of a family succession plan.

> I am the sole owner of the company, but I push the company on the premise that my children won't get much of what I'm going to do. For me, family business is that you're building something for the benefit of your family, or the future of your family, or the legacy of your family. (Company E1)

The CEO and major shareholder of company N1 is afraid that he, as well, cannot call his company a family business because he is worried about its continuity. His concern springs from the fact that he is not the majority shareholder and does not have the means to purchase everyone else's shares in case they decided to sell out.

> My view for the family company is the continuity of the business. For us, it's different because it's not a family business, if the [two other investors] want to sell the business, it's possible because it's expensive for me to buy all the shares. (Company N1)

The great size of the challenge to ensure successful family succession matches its importance. As the president and CEO of company C1 puts it, "It's something to succeed the founder. It's not always easy." The absence of a good succession plan or a competent successor, and the clash between family members over succession issues, are all brought up by our interviewees as challenges that can either make or break the future of the firm. For example, the president of company A2 sees family succession as a differentiating aspect for family firms. For him, it is a double-edged sword that brings long-term planning for the firm, but can also cause feuds among family members.

> In a family business, there is the issue of succession and long-term planning and long-term development, which is not present at non-family businesses. It is also a bad thing at the same time, because this is what makes it difficult for family businesses to last. Feuds

and fights among family members would kill the business. Poor succession and a poor successor would often kill the business. (Company A2)

Feuds among family members over cross-generational succession matters can take different forms. For example, like in the case of company I1, the founder who "is turning 70 is not ready yet to let go." Or as the CEO of company S2 says, "Sometimes the son or the daughter doesn't want to take over the business, but they feel the pressure to do it." To avoid any problems, his company "went public to consider a strong succession plan for the future of the organization" (Company S2).

The president of company A2 is also facing a succession problem that will alter the future of his family firm. He is a second-generation president, but unfortunately "there will be no third generation" (Company A2). The reason he is not being able to identify a family successor is the fact that "good succession takes a long time to happen, and there is only one family member (who) works here and he is not capable of taking over. I have kids but not one of them was interested and I didn't want to force it on them" (Company A2). This lack of a successor is presenting a big challenge for the president of this company for which he sees no solution other than selling the business. When we asked him if he would consider handing over leadership to a non-family member, he responded with a firm "No. The right thing to do for my family is to sell the company… I rather sell the business" (Company A2). Similarly, the founder and CEO of family firm C3 has only two options to choose from when it comes to succession: either one of his children takes over top management or he sells the company and retires.

I'm giving a chance to my children to say we [would] like to do this. So, in my case, if my kids will not take over, then I have no point of keeping the company, I would sell it. (Company C3)

The fact that company J1 is a public company makes having a non-family successor unavoidable in case a family successor could not be identified. Accordingly, we see a more flexible position from the current CEO, who expresses his willingness to have a non-family member lead the company as a last resort in case no one of his family was interested and fit for the position.

> I like being a family business. We have people in the family who are interested in the business, who are involved in the company here. It means it looks good for the third generation. But if it hadn't been so, it's not the end of the world to say, well, let's have somebody else look after this company. Of course, you'd like to have your son involved in the company, of course you want to have family members. (Company J1)

Succession is the most prevalent topic in the academic literature (Chua, Chrisman & Sharma 2003) about family firms, and rightfully so. Our extensive evidence underlines the importance of family cross-generational succession to family firms. We add that the importance of keeping the business in the family and passing its ownership and management on to the next generations starts strong with the founders and does not stop with them. It extends down the line to the second, third, and later generations.

2.4.3. Family firms' long-term vision and long-term (patient) capital

During our inquest on what makes a family firm, we asked our interviewees about their goals and their firms' goals. We also probed about the reasons our interviewees started or joined their family firm. Many of the recurring answers we got are about the long-term vision and cross-generational survival of the firm. The attainment of these goals is made possible through the firms' long-term investments financed by the long-term or patient capital provided by the family firms' owners. The investors of patient capital are willing to forgo an immediate return in anticipation of more substantial returns down the road. For example, in the quote below, the president of company G1 tells us about his family firm's long-term investments, far-reaching vision, and patient capital.

> Investment is for the long run and for the continuity of this company, while a business that is not a family business would want a quick return next quarter. (Company G1)

The presidents of companies B1 and T1 both share the same outlook for their current and future expectations from their investments. To explain their point, they compare their family firms to their non-family firm competitors:

> I don't know that much about a public company, but I have prejudices, I see these guys acting, they work for 3 months, they look at 3 months, but I look at a lifetime all the time and I never work for money. Money is the outcome of the thing. (Company B1)

> Most [non-family firms] are driven by top line and driven by growth at all costs, where we have been able to stay more focused on the culture that we've built, profitability, and organic growth… You don't grow as fast, but I think you grow much more strategically and long term. (Company T1)

Moreover, the CEO of company A1 recalls for us what her father, the founder, has taught her about making investments for the sake of the third and the fourth generations, who it is hoped will take over the business after her retirement.

> My dad would say: once you take over, you're going to be working for your kids, who hopefully also will be taking over. So, the decisions that are made, the investments that are made are for the future, for long term. (Company A1)

The priority of the long-term survival of the firm over quick financial gains is also clear in the following scenarios, wherein the owners of these family firms declined serious offers to purchase their companies for the sake of passing the companies on to the future generations. The founders and current owners-managers of family firm I1 consciously relinquished financial gains when they refused to sell the firm because they want to keep it in the family.

> [My parents] had an offer, they had a couple of offers, but that was a more serious one, and they refused. I'm not going to sell it either. This is my career, my whole life, and my future. … It's my whole life; I wouldn't put an X on it. (Company I1)

The president and CEO of company C2 shares the same experience:

> It's not just a question of numbers; it's the question of longevity. I think family businesses want to see the business continue after each generation. At one point, [My father, second generation] had an opportunity to sell. I told him if it's good for you, sell and when I'm finished school; I will decide what I want to do. My father didn't sell the

> business, because it's not about selling for a lot of money, it's about being proud of keeping the company in the family. (Company C2)

Several other factors support the family firms' ability to stay focused on their long-term vision. The president and CEO of company C1 credits the family nature of his firm for relieving its management of the market pressure for short-term results, thus allowing management to focus on its long-term goals.

> The long-term concern is what characterizes us as a family business. We put more focus on the survival and long-term viability of the company. That, I think, is something that is not found at non-family businesses. I think that the family structure allows you to balance the short-term pressures of the market. (Company C1)

The president and CEO of company G2 credits the fact that family firms do not have external shareholders for their ability to place less importance on short-term results for the sake of their more important long-term vision and survival of the firm.

> Because we don't have outside shareholders, our perspective is a lot longer and deeper than the typical publicly traded company, where you manage quarter after quarter. Our perspective is longer, and that's typical of a family business. (Company G2)

Company S2 is a publicly traded family firm where the family controls more than 50% of the shares. The CEO credits his family's controlling shares for his ability to pursue his long-term plans in accordance with the long-term vision instilled by the original family owners.

> My family still retains about 50% or more of the controlling shares, so we can afford to take a long-term view on our strategies and our decisions, whereas most publicly traded companies that are widely held have to justify every quarter why they did certain things. We still have to justify, but we are okay to say, guys, even if in the short-term it doesn't appear to be the right thing because we give up margins or something … We know it's going to be good for the long term. We're saying, guys, be patient. (Company S2)

Family firms' financial independence also allows them to follow their long-term visions. Several family firms' owners-managers pride themselves for being "100% family funded"

(Company B2) and for having “no debt” (Company J1). For example, the CEO of company S2 describes how he thinks of banks, creditors, and financial institutions as service providers who have absolutely no influence on the decision-making process at his company.

> Banks are service providers. We would probably be stakeholders for them, but they are not necessarily stakeholders to us. We don’t take decisions based on the banks or the financial institutions; we don’t think of them all that much. (Company S2)

Family businesses choose to grow their businesses organically, without resorting to creditors, so that they preserve their financial independence. The CEO of company C3 is proud to fund his company’s expansion plans solely from its retained earnings, and never from debt.

> I like keeping the business debt free; we never borrowed a penny to expand the business. I expanded it to the speed of the business. I didn't want to have debts. (Company C3)

Family firms do not like to take on debt because they see it as diminishing to their control over their companies. Involving creditors mean that they might have to answer to external parties and abide by rules and regulations that they do not necessarily agree with. In the following quote, the president of company T1 explains it beautifully:

> We decide what we like to do, where we like to invest, where we like to strategically direct ourselves. We set criteria for ourselves on the financial performance of the company and how we wanted to manage our business… I shouldn’t say never, but the last 20 years or so, we never had debt in the company, and fortunately we could decide on what we wanted to do and how we wanted to do it. (Company T1)

The evidence from the interviews show that family firms highly value their financial independence because they see it as the reason behind their freedom to direct and control their companies toward achieving their long-term goals without worrying about having to answer to external creditors who might hold them accountable to public market standards. It is also important to note that none of the family owners-managers we interviewed put creditors on their mental maps as important stakeholders in the universe of their firms.

2.4.4. Family firm founder's legacy and family values

Carrying on the founder's vision surpasses being a defining aspect for family firms to reach the level of a pivotal reason for their continued existence. For example, the CEO of company A1 feels "lucky" because she gets "to continue (her father's) legacy" (Company A1), while the VP of family firm I1 says that her goal is to carry on her father's dream.

> I mean, my father had a dream, and I think it's a beautiful dream for him. And I want [his] dream to continue, at another level maybe. (Company I1)

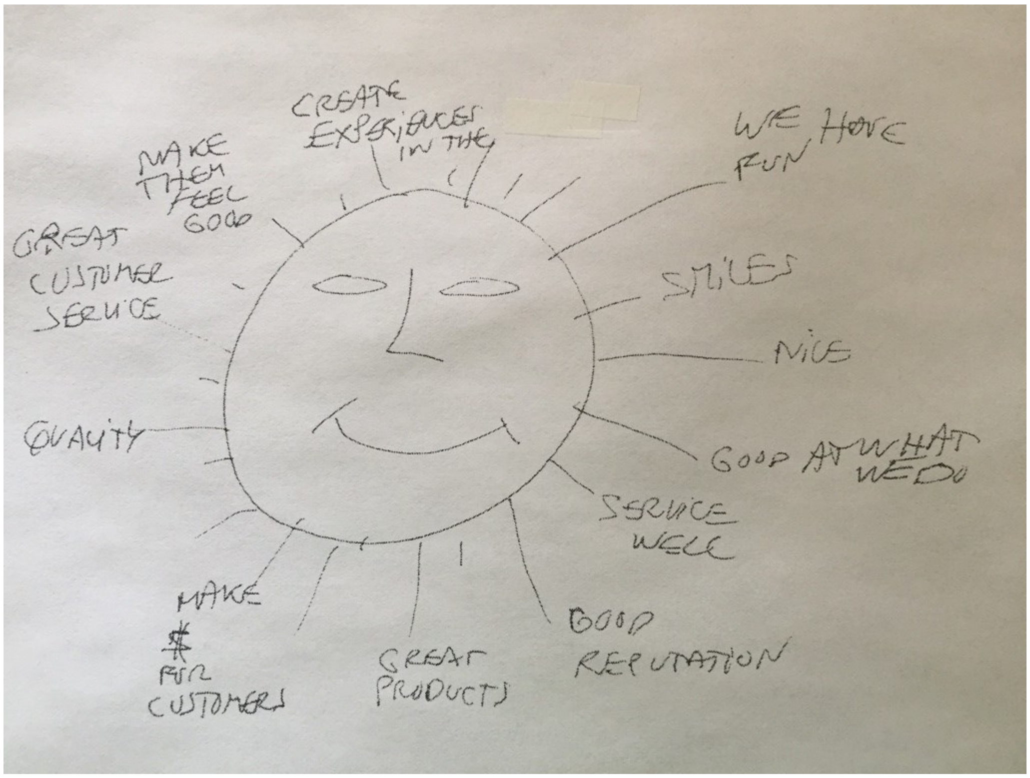
Similarly, the VP of company P1 says that she won't sell the company because she wouldn't want to see "the name, the values, the traditions, the ideals, gone down the drain" (Company P1). She adds that the reason she is in the company is to continue what her father and uncle started.

> My vision is to continue what my dad and my uncle started. That's why I'm here… It's not that I wanted it to be mine; it's just that it's continuing a legacy. (Company P1)

Preserving the founders' legacy is achieved through protecting the "family spirit" and the "family values" they instilled in the family firm. The family spirit is reflected in the "focus on the long term, not trying to maximize financial returns at the expense of other important issues" (Company C1). The CEO of company A1, quoted below, stresses the importance of her family firm's culture, which mirrors her father's and is preserved and continued by her. This shows how a family business is inseparable from its founder and his values. The founders' values carry on their role in shaping the present and future directions and mode of conduct of the firm.

> For me, the culture, it's my dad. It's the values that he has incorporated within us and our employees. It's his work ethic, his belief system, his determination, his incredible positive thinking, always pushing forward, always wanting more, never giving up. It's such a huge part of our culture here. (Company A1)

The president of company T1 drew the exotic mental map below to represent his family firm and reflect their values. He compares his firm to the sun because of the warm family atmosphere present on the workplace. Each of the rays coming out of the sun represents one the family values they operate by. Among others, the president emphasizes having fun, smiling a lot, being nice to one another, maintaining their good reputation, and providing their clients with great quality products and services.



2.4.5. Family of employees

The interviewees repeatedly expressed how they regard their employees. Often, the line between their own bloodline family and their big family of employees is blurred. The importance of treating employees like family is pivotal for family firms. The following opinion shared by the president of company A2 shows how the family values present at the firm dictate that he treats his employees like family, and how that has paid off with employees' commitment and loyalty to his family firm.

> We all are like a family... I think it is safe to assume that employees are more loyal to the company when it is a family business than a non-family business because of this family spirit we have and because all employees are treated like family. We have people who have been here with us for more than 20 and 25 years. (Company A2)

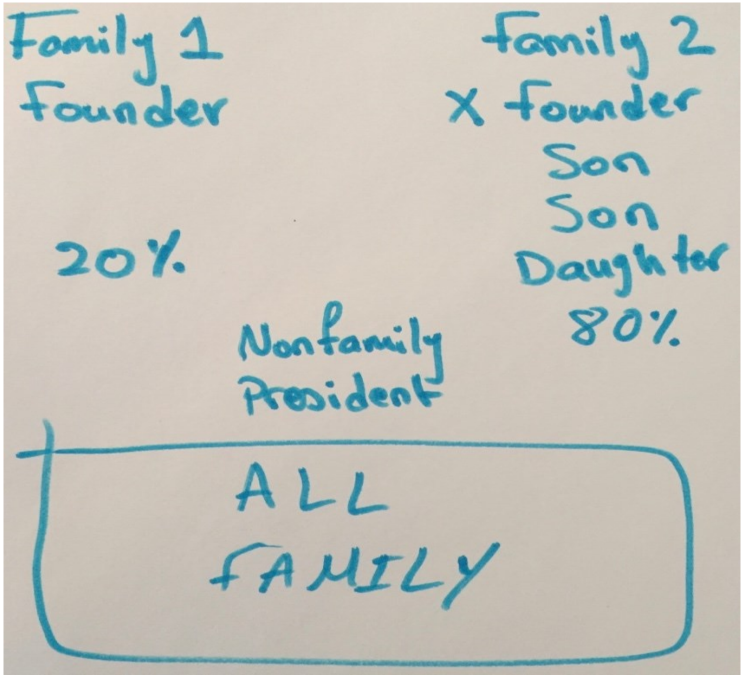
For the VP of company I1, the firm "is a family of employees who have been there for a very long time." Her firm enjoys a family culture that has resulted in this long-term commitment.

> I have two families, I have my family, my blood family, and I have my family, (company name) family. They've been here for a while. I mean, for example, one of our sales representatives has been here for 20 years. (Another) has been here for 17 years… They're not just employees, they're part of the family... It's not just a boss-employee kind of relationship, it's more than that, it's a family culture. (Company I1)

The president and CEO of company C1 gives an alternative definition to the family. For him, the family extends to all the employees of his family firm who have shown a sense of ownership through their long-term commitment to the firm.

> And then what does family mean? The definition of family is very extended. It's a sense of ownership, interdependence, commitment; you build things for the next generation. In fact, my colleague in the next office, his father used to run one of our divisions. He used to work in the factory 50 years ago. So, for him, it's a family affair too. (Company C1)

Below is a replica of the mental map drawn by the Co-CEO of company V1. The map clearly shows how he labels his employees as "all family." Of course, not all his employees are his blood relatives, as this is a large company that has a large number of employees. Yet he considers all of them as family, and he emphasizes that in the way he represents his employees in his map. The mental map also reflects the importance the Co-CEO places on the 80% ownership by his family. Moreover, he clearly specifies the position of the non-family president in the presence of the Co-CEOs, who are brothers, and their two sons and one daughter. It seems as if the non-family president is holding the position until the three third-generation offspring are ready to take over.



Per the president of company G1, family firms are more caring for their employees and the community at large. He sees his employees as his partners in building the company, and thus he feels responsible for their livelihood like he is for his own family.

> We had built the company with the employees, and we want to make sure we're there for the long run because it's their living too. We are more caring for people. We are probably more involved in the community than non-family firms. (Company G1)

The same care for the employees and their families that represents the larger community of the family firm is emphasized by the CEO of A1.

> Family respect for everybody, giving people what they deserve. We're the bosses, if you want, but we're friendly with everyone. We know all our employees' names. We've been working with them for years and often we see an employee bringing in their mother to work, their neighbour, their cousin, they bring them in also to work with us. (Company A1)

The CEO of company J1 feels a sense of fatherhood toward his employees because he has been involved with his family firm since he was very young. He adds that what differentiate family firms from non-family firms are the loyalty of family firm employees and the high level of respect they have toward the firm and its owners-managers.

> I would say that a family company has this tendency to grow and to manage in a paternal way. I think it's good, especially in a world today where there's no loyalty, there's no respect. I think in a family business it's much different. (Company J1)

The sense of ownership also comes from the employees themselves. The president and CEO of company G2 describes how his employees feel like they also own the company and how that translates into a sense of belonging and long-term commitment to the family firm.

> There's a sense of ownership from all the people in the company. The people in the business look at a family business as, wow, here's a family that I can belong to, share with, and I like this, and I vote for the long term. I think that sense of ownership becomes more emotional when you're working in a family business. (Company G2)

The family values of company T1 dictate that the president treats his employees well.

> I think we treat our employees particularly well. Again, because we are driven by our own values… We have a very low turnover rate and we have employees that have been here for 40, 50, 60 years, and even the millennials that have joined our company have stayed over the last five, six, seven, eight years, which is unusual in these times. (Company T1)

The president of company B1 also sees his priorities reflected in his management style as a family firm owner-manager, and compares them to that of a manager of a non-family business.

> Of course, you need money, but these guys look only at money, they don't look as much at the people. We look differently at the people. I'm happy that I have worked to earn the merit of my people to create this. (Company B1)

Another family firm owner-manager, the president and CEO of company C2, also prioritizes the satisfaction of his employees over that of his clients because, for him, a satisfied employee will satisfy the customers.

It’s always difficult [to know] which comes first, client or employees, but I think if you start with employees, they will make your client happy. (Company C2)

We take the above delineated comments by our respondents, such as the employees’ and the firms’ mutual care, respect, and self-sacrifice, as indicative of the perceived importance of the reciprocated loyalty between the employees and the firm and their mutual codependence for the betterment of their present and future situations.

2.4.6. Family firm SEW

The SEW our interviewees focus on is that related to the immediate family members and the employees who represent the core society concerned with the family firm. It is important to note that the interviewees’ remarks below are not answers to direct questions such as, "Which is more important, the family or the business?" The following excerpts are from answers to indirect, open-ended questions such as, "What is the reason of existence of this family firm?" or, "Why did you join your family firm?"

The president and CEO of company G2 explains that no member of the immediate or extended family, which includes the employees, is more important than the firm.

As we say in the family, no members of the family nor any members of our staff are more important than the company. … As a family, no one is more important than the company, and the interests of the company come first. (Company G2)

The Co-CEO of company B2 also puts the family firm first and is not willing to create positions at the firm to please any family members.

We treat the business first. The business is not there to make the family live, the family is there to make the business live. You don’t create positions for a family member so that one gets a job. No, you get the best person in the seat to make the business thrive. (Company B2)

The president and CEO of company C1 also describes how the family is at the service of the firm, and not the other way around. He completes the cycle by saying that when the firm does well, the family, the employees, and the community at large will all do well, too.

> The family, to me, is at the service of the enterprise, and not the opposite. The objective of the family is to keep the enterprise well because that will serve the continuity of this enterprise which will, in return, make sure that the family, the employees, and the community [are] doing well. (Company C1)

This view is in line with the SEW view of the firm. Securing the well-being of the firm will, in turn, ensure that of the family, the employees, their families, and the society at large.

2.4.7. Misconceptions about the family firm

Our interviews with family firms' owners-managers have uncovered what we believe are several misconceptions about family firms. For example, the CEO of company E1 does not think that his company is a family firm because his company does not carry his family name.

> First, they all have the last name as part of the company. (Company E1)

Another misconception he has about family firms is that they are small, in terms of both size and activity. Moreover, he thinks that family firms are taken less seriously by large corporations and are perceived as riskier to deal with and invest in.

> I don't think I can go to another, or, you know, the large (organizations), if the perception is that you're a family business. Because it's, family is small, it's far less space in terms of viability. So, that situation would be smaller scale, more cash grown, less value, and risky [in] the long term if somebody wants to come in and invest. I can buy a product from you say for $1 million, I've invested in your future. (Company E1)

In addition to being perceived as small in size, family firms are also perceived to be small in terms of the scale of their operations. These misconceptions about family firms being small and limited to operating at a small scale are expressed by the CEO of company R1.

> I will tell you what a family business is. It is when you work on a small scale, for example, when you are working alone or with only one employee. If it were not a family business, it [would] be, for example, a company where a thousand employees are working and serving many customers at the same time. When a company is big and working at a high level, then it is not a family business anymore. (Company R1)

A fourth misconception about family firms is that they only employ family members. This misconception can also be related to the previous misconception about the size a family business can grow to. According to the director of company P1, her company is not just a family firm anymore because it has grown to a size where they now have non-family employees.

> It's not only family anymore, so we can't really represent ourselves as just the family. We started as a family business, 100%, but we grew because not everybody is family here. We had to get regular employees. We're too small of a family to do it all. (Company P1)

Uncovering misconceptions about the family firm is not the objective of this study. The few misconceptions identified above are only a coincidental by-product of our interviews. Yet we believe that these are only the tip of an iceberg of misconceptions that deserve to be investigated further because of what they can represent in terms of challenges to the family firm.

2.5. Discussion

2.5.1. Defining aspects of family firms

The SEW view of the firm is the root base of the concept of familiness (Habbershon & Williams 1999; Habbershon, Williams & MacMillan 2003) and its three dimensions: i) components of family involvement (Chrisman, Chua & Sharma 2005), ii) the essence of family involvement (Chrisman, Chua & Sharma 2005), and iii) the organizational identity (Zellweger, Eddleston & Kellermanns 2010) used by researchers as a theoretical framework to understand differences between family firms and non-family firms, as well as to understand differences among family firms. Aimed at finding an internally generated understanding of the family firm, the empirical insights show several of their defining aspects. These aspects are determined by how the owners-managers of our sample of family firms define their family firms either directly by telling us why they self-identify as such and/or indirectly through contrasting their family firms to non-family firms. The empirical insights reveal that family ownership, control, involvement in management, succession, long-term vision, continuation of the founder's legacy, and presence of an extended family of employees are all defining aspects that make up the essence of the family firm.

Family ownership is perceived as the enabler for the family to control the firm. Ownership opens the door to family involvement in management, which in turn ensures the continuation of the family values instilled by the founders and preserved by their successors. The SEW view of the firm prioritizes preserving and growing the social and emotional capital over the economic capital of the firm (Berrone, Cruz & Gómez-Mejía 2012; Gómez-Mejía et al. 2007; Gómez-Mejía, Makri & Kintana 2010). But our analysis shows that this is not necessarily always true. We suggest that the SEW view of the firm would hold as long as the family firm is financially strong and can afford preserving and growing its SEW. This is an important issue to be tackled by future research. For example, future research can attempt to answer the questions of when it becomes acceptable for a family firm to forgo financial gain for the sake of its SEW, and when the opposite would be true.

We believe that the priorities of family firms can change under different circumstances and we, researchers, must identify and debunk the mysteries around these circumstances. The empirical insights suggest that family firms would sacrifice quick financial returns for the long-term family ownership and control over the firm. For example, family firms are willing to forgo financial gains resulting from the sale of their family firm for the sake of keeping the business in the family and passing it on to their heirs. Along this line, we emphasize several factors that enable family firms to pursue their long-term vision. Among these factors are the family firms' focus on the long-term organic growth of the firm made possible by the patient capital, the family ownership, and the family control of the firm. Family firms make it a point to grow organically, depending on their retained earnings, and without resorting to external financing like debt or selling equity. Family firms' organic growth and debt avoidance lead to their financial independence. Combined, these factors give family firms their freedom from creditors' interference and the public market's pressures. They also give family firms their ability to pursue long-term plans and maintain their financial independence, family ownership, and family control. Family social capital best distinguishes family from non-family firms (Danes et al. 2009; Hoffman, Hoelscher & Sorenson 2006; Sorenson & Bierman, 2009). In agreement with extant research, our findings show that, when a family has social capital, it often can enlist the human capital of family members to support the firm (Chang et al. 2009; Rodriguez, Tuggle & Hackett 2009). Involving the right family members warrants the availability of family human capital, which provides a potential resource advantage over non-family firms. But our evidence shows that family involvement can be a double-edged sword. Striking the right balance between involving the family members with a positive balance of human capital and precluding those who don't contribute positively to the firm from interfering with the firm, or what we call attaining the right level of healthy-family-involvement, is a difficult task to achieve. Thus, we present the following questions in Table 5 as guidelines for future research to design a measurement tool to assess the level of healthy-family-involvement in the family firm.

Table 5: Guidelines to measure the level of healthy-family-involvement

How many family members are involved in the firm?	
How many of the involved family members own shares of the family firm?	
Are the family members employed by the firm doing a clearly defined job?	
Is there a clear succession plan at the family firm?	
Are there clear guidelines for family members' involvement in the firm?	
e.g.	How many members can join the firm per family?
	What level of education is required?
	How many years of experience outside the family firm are required?

We also propose that the level of healthy-family-involvement in the family firm be used in addition to the level of family ownership in future research aiming to further understand differences among family firms.

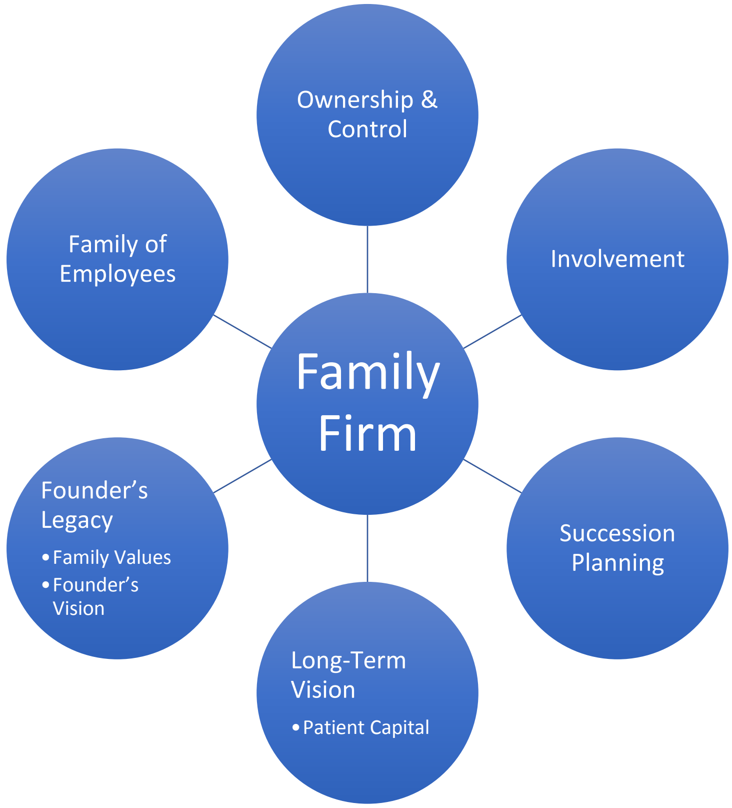
As discussed, family firms have a unique resource in family capital (Sharma 2008; Sorenson & Bierman 2009). Stocks of family human capital can be made available to the firm by involving those family members who have the potential to positively contribute to the family firm, while excluding those who can't. When it comes to succession planning, our findings suggest that identifying and recruiting those family members with the potential for a positive impact can, at times, be more challenging than excluding the family members whose involvement can be potentially harming to the firm. "Smooth succession is an oxymoron… Succession in a family business is probably the most complex management challenge anybody faces," said Peter Davis, director of the division of family business studies at Wharton School of Business, and quoted by Handler and Kram (1988). The findings in our study show that his words still ring true today: the most important challenge faced by family firms remains that of succession.

Moreover, our discussion sheds light on an important scenario related to family firms' succession process: when family firms' owners-managers are faced with a situation in which they will not have any family successors. This usually happens at a later stage in their careers and they seem to consider only one option, selling off their family firm. Handing over the leadership to a non-family member is explicitly rejected. Then, the decision becomes about whether to sell the company to internal employees (who are considered and treated like family) or to external investors. While selling the firm to its interested employees might be a preferred option, it is not always a feasible one. Alternatively, selling the family firm to an external party is always conditional to the fair treatment of the family firm employees. Whoever buys the firm must "do positive things to everybody in the (company name), the employees" (Company A2). In conclusion, our paper suggests that the prevailing concern of family firms' owners-managers, today as much as in decades past, is still related to succession (Chua, Chrisman & Sharma 2003), and calls for more research on the dynamics of family firms' management succession in the case when no family successors can be identified.

With respect to continuing the founder's legacy, we see it consciously pursued and achieved through the owners-managers' actions in different situations. To them, carrying on the founder's vision is a fundamental reason for their involvement in the firm. Protecting the family and founder's legacy entails making the founder's dream come true, keeping the family name on the door, and extrapolating the family values, traditions, and ideals. This finding is in line with the SEW theory, as these insights show how the firm's way of conducting business, whether internally with employees or externally with external stakeholders, protects the beliefs and values of the family in general and the founder in particular. We conclude that a family business is often inseparable from its founder's values, which carry on their role in shaping the present and future directions and mode of conduct of the firm.

Family firms' owners-managers provided multiple inputs about the importance of their extended family of employees to the firm. The views of the interviewed owners-managers about the priority they give to their employees' satisfaction resonate with the extensive literature on the service-profit chain. The service-profit chain links employee satisfaction, customer satisfaction, and financial performance (Loveman 1998). Several studies suggest that there is a positive relationship between employee satisfaction and customer satisfaction (Chi & Gursoy 2009; Jeon & Choi 2012). Satisfied customers exhibit loyalty behaviours such as continued purchasing and increased referrals (Chi & Gursoy 2009). These loyalty behaviours reflect positively on both market share and profitability of the firm (Chi & Gursoy 2009). Our interviews show that family firms have experienced the validity of this relationship and purposefully maintain a very strong service-profit chain. This is also in line with SEW theory. Family firm owners-managers view their employees as part of their extended family and, accordingly, preserving employees' satisfaction and well-being becomes an extension of preserving their own SEW. Figure 2 below summarizes the empirical insights related to the seven aspects that define the family firm.

Figure 2: Defining aspects of the family firm



Finally, and as discussed earlier, our inquiry has uncovered several misconceptions about what a family firm is. For example, to some of our interviewees, a family firm must carry the family name, is always small in terms of its size and its scale of operations, is risky to deal with and invest in, and employs only family members. We believe that these misconceptions also represent important avenues for future investigation. Since these misconceptions were discovered from within our sample of family firms, we suspect that these and other misconceptions might be present outside the realm of family firms and might, for example, represent an anticatalyst for business interactions between family and non-family firms. Such a barrier, in case it exists, must present an opportunity cost for family firms. Table 6 below summarizes all the misconceptions uncovered in this study about the identity of the family firm.

Table 6: Misconceptions about the family firm

A family firm is/does:
always carry the family name
small in size
small in scale of operations
riskier to do business with
riskier to invest in
employ only family members

2.5.2. Toward a definition and a measurement tool of the family business

Family ownership plays a big role in making the essence of a family firm. Our interviews show that, early in the life of the business, mostly during the reign of the founder and on to the second generation, ownership is usually concentrated in the hands of a small number of shareholders from one or a few founding families. Later, mostly from the third generation onward, we see the ownership of family firms getting more dispersed by either taking the form a cousins' consortium or by going public. The percentage of shares owned by the founding family(ies) varies, and they don't necessarily always continue to hold the majority of shares. Measuring the percentage of family ownership is easy, and more family ownership translates into more family control and reflects more familiness. Yet, we do not propose a minimum required level of family ownership for a business to be labelled as a family firm, as long as the founding family keeps enough ownership to give them access to a current and future family CEO or family-appointed CEO or President position. Higher percentage of ownership and control would naturally facilitate the appointment of a family member in a key managerial position and reflect a higher level of familiness.

The involvement of family members in the family firm is also very important for a business to be called a family firm. Our data show that, as generations go by and ownership gets dispersed, the number of family members involved in the business becomes smaller. The founders usually strive to involve as many family members as they can. Then, second generation owners-managers start trying to limit the number of offspring involved in the family firm by either formally or informally implementing family-centric controls, such as prequalifying criteria for any family member who wishes to join the family firm. Accordingly, as generations go by, we see a decreasing number of family members involved in the family firm. Yet, as mentioned above, a family member or a family-appointed member has to always fill a key position in the top management team of the family firm. We propose measuring the family involvement in the firm by simply counting the key positions filled by family members and by people affiliated with or appointed by the family. The more family members are involved in managing the family firm, the higher the firm's level of familiness, on condition that everyone involved is positively contributing by filling a specific position and doing a well-defined job. Having family members involved in the firm with no specific titles nor exact tasks is counterproductive and a sign of bad family involvement.

The role of family succession and its importance as a defining factor of the family firm does not change with time and generations. Our evidence shows that, no matter what generation the family firm is at, having a family successor remains of utmost importance. Without a family successor in sight, the family firm will cease to exist. Family firm owners-managers have explicitly said that they would prefer to sell the firm rather than having a non-family member succeeds them in leading the family firm. Similarly, the two owners-managers who refrained from labelling their businesses as family firms did so because of the absence of family succession plans. In one case, the founder refuses to give the firm to his offspring. In the second case, despite the fact that the current CEO owns a substantial portion of the shares along with the founder and a third investor, he does not label his business as a family firm because he is not the son of the founder. Having a family member identified as the successor, having a formal succession plan in place (usually in more mature companies), or simply having the intent of keeping one or more family members from the next generation involved in managing the family firm are all simple measures of family succession and reflect a higher level of familiness.

Long-term investment, or patient capital, is one important defining aspect of the family firm. The importance of this aspect remains high throughout the life of the family firm, but the source of the money invested in the firm changes. The founders invest their own money and their family's money in the firm, while later generations mostly expand the firm organically. In either case, family firms are not fond of debt. Although having some credit is inevitable for the purpose of facilitating business operations, most family firms we interviewed pride themselves for having no or very minimal debt. Various measures can reflect a family firm's patient capital and its low appetite for debt such as a low financial leverage ratio, a low debt to total assets ratio, and a high times interest earned ratio.

Carrying on the founders' legacy by keeping their vision and the family values alive are pivotal reasons for the continued existence of the family firm. A good way to measure this is through looking at the mental maps drawn by the owners-managers, the way the companies define or introduce themselves, and the vision and mission statements, where we must find the family name and the family values mentioned and emphasized.

As also argued earlier, family firms maintain a very strong service-profit chain. Employees are treated like family in a family firm. As a result, the employees are generally highly satisfied and the employee retention rate is high. As per the service-profit chain, satisfied employees will provide the best service to customers and, accordingly, the family firm will also enjoy a high rate of customer satisfaction. Therefore, we propose using the employees' retention, employees' satisfaction, and customers' satisfaction rates as a measure of how much a family firm values its employees. Higher rates should reflect more of the family spirit and familiness of the firm. Table 7 below summarizes our proposed definition based on the seven defining aspects generated from inside the family firm. Based on the same seven defining aspects, we propose a measurement tool of the familiness level of the family firm. The measurement tool can be conveniently operationalized using publicly available information.

Table 7: Defining aspects of the family firm

Defining Aspect	**Definition**		**Measurement**	**Comment**
	Young Family Firm	**Mature Family Firm**		
Ownership	Concentrated in the hands of one or a	More dispersed/public firm	% Ownership	Higher = more

	few founding families			familiness
Control	Majority of shares	Might not hold a controlling number of shares, but still hold enough to appoint a CEO/NEO/President	% Control	Higher = more familiness
Involvement	Many family members work in the firm	Few family members work for the firm and occupy key positions	Family President Family CEO Family NEO	Higher number = more familiness as long as everyone has a specific, defined job
Succession	All family firms have at least one family (or family-appointed) member from the next generation who has or is planned to have a top management position at the firm		Identified successor Succession plan	Higher = more familiness
Long-Term Investment	Assets are mostly financed by founder's family's investment	Assets are financed by the firms' retained earnings	Financial leverage Debt to total assets	Lower = more familiness
	No/very low debt	Low debt	Times interest earned	Higher = more familiness
Founders' Legacy	Family firms carry on the founders' legacy by keeping their vision alive and by preserving their family values		Founder or family name or values mentioned in the company's communications (e.g., about, vision, and mission statements)	

Extended Family of Employees	Family firms maintain a very strong service-profit chain; employees are perceived as members of the owners' extended family	Employee retention rate	Higher is more familiness
		Employee satisfaction	
		Customer satisfaction	

2.5.3. Insights from Simons' levers of control theoretical perspective into the family firm

Using Simons' levers of controls as an alternative data analysis framework (1990, 1995, 2000), we argue that the owner-manager's definition of their own family firm plays a role as a management-control tool embedded in the belief system, and affecting the interactive control system of the firm. The belief system is one of Simons' levers of control and is defined as an explicit set of beliefs that describe the firm's basic values, purpose, and direction, including human relationships (Simons 1990, 1995, 2000), and inspires participants to commit to the firm's objectives (Ferreira & Otley 2009; Rodrigue et al. 2013; Simons 2000). Popular examples of this kind of control include the mission and vision statements. While the definition of the family firm is not always explicit, we propose that if family firm owners-managers define their firms in a statement, then the definition can guide the employees' behaviours in the same way the mission and vision statements do. We also suggest that if a family firm is defined in a drawing like the mental map we asked for, the drawing will also guide the employees' behaviours in a way that is like that of strategy maps or the balanced scorecard sheet. These propositions are based on our evidence that shows owners-managers of family firms adopting their own definition of their family firm, integrating it into their behaviour, and then passing it down to their employees. The effect of the family firm definition is reflected in everyone acting "like a big family" and preserving the "family feel," thus turning the definition into a management-control tool that is part of the powerful belief system lever of control.

The interactive control system lever of control denotes that various kinds of information be proactively incorporated into the strategy process (Simons 1990, 1995, 2000). The chosen strategy remains appropriate to the overall company objectives. In this sense, we suggest that the way the owners-managers define their firm plays a role in specifying the kinds of information to be taken into consideration in the decision-making process. More specifically, we argue that the way owners-managers define their family firms can signify whether a family member's ideas, wants, or even feelings about a specific matter are proactively incorporated into the strategy process. For example, several owners-managers highlight the big role of emotions in the decision-making process at their family firms. For some companies, the way a family member feels about a specific project, or an investment opportunity, can have the biggest role in determining whether to go through with it or not. In other cases, family firms are trying to do the exact opposite by aiming for the "governance of a non-family firm," where family members' emotions do not have a role to play in the decision-making process. So, the way owners-managers define their family firms has a direct effect on the kinds of information integrated into or blocked out of the firms' interactive control systems.

2.6. Conclusion, Limitations and Future Research

This paper contributes to the management control and family business literature by uncovering and providing insights into seven defining factors of family firms directly from their owners-managers. Our paper suggests that the owner-manager's perception of what their firm is and what they want out of it denotes where they place their business on the familiness continuum. The family firm's degree of familiness does not just happen by accident, but is premeditated and deliberately executed as part of the plan to achieve both the family firm's financial and familial goals. The familiness measurement tool we propose in this paper can be conveniently operationalized using publicly available and externally observable information. Similar to Klein, Astrachan, and Smyrnios (2005) F-PEC scale, future research can assess the validity of this tool. Yet, unlike the F-PEC scale, the validity of this familiness measurement tool can be assessed using publicly available and externally observable information.

This study reaffirms the coexistence of the dual control ambitions discussed in the family firms' literature. But we do not find that the family firms' SEW is, per se, always prioritized over its economic wealth, as the SEW theory would specify (Berrone, Cruz & Gómez-Mejía 2014;

Salvato & Moores 2010). Alternatively, we find that the priorities of the family firm can shift depending on the family firm's goals, which are set based on the owner-manager's view of the family firm. Accordingly, we propose expanding and fine-tuning the concept of familiness and its components, which are based in the RBV of the firm, as it appears to provide a more accurate analysis tool that helps better understand the family firm.

Using Simons' levers of control as an alternative analysis tool, this paper uncovers how the definition of the family firm is used as a management tool to control the family firm. We argue that the owner-manager's definition of their own family firm plays the role of a management-control tool embedded in the belief system, and affects the interactive control systems of the firm. Thus, the owner-manager's definition of the family firm becomes a management-control tool used to set the direction of the firm and attain its familial and economic goals. We believe that this proposition also merits future investigation, as it has the potential to help us better understand how family firms are managed and controlled. In this regard, Prencipe, Bar-Yosef, and Dekker (2014) reviewed 37 research articles that explicitly examine accounting issues in family firms, and called for more research efforts to improve our understanding of accounting and control choices within family firms. First, Prencipe et al. (2014) found that around 60% of studies examine financial accounting issues, while only 20% examine management-control issues, thus highlighting the need for more research in the control area. So, by examining how the owners-managers define their own family firms and how the definition serves as a management-control tool, this paper provides new insights and responds to calls for more field-based research on the management-control practices of family firms (Prencipe, Bar-Yosef & Dekker 2014; Salvato & Moores 2010). Second, with respect to applied research methodologies, two types were found to dominate the research scene: archival data and survey studies (Prencipe, Bar-Yosef & Dekker 2014). Moreover, qualitative research is found to be significantly underutilized, even though this approach may provide detailed understanding of accounting/control phenomena within family firms. These phenomena would be difficult, if not impossible, to study otherwise. As an answer to Prencipe et al. (2014), the current study uses a qualitative case study approach. The current study uses semi-structured in-depth interviews, drawings of mental maps, and thus, contributes to the literature by combining more than one data collection method with qualitative analysis to substantiate different defining factors of family firms.

As is common in qualitative research, the results are not intended to be statistically significant. While other internal and external stakeholders can have different conceptualizations of the family firm, we choose to investigate the defining factors of the family firm from the point of view of their owners-managers. Consequently, we tap into the knowledge of 20 owners-managers who have the essential first-hand knowledge and understanding to provide us with meaningful insight into their firms. The evidence we draw from the 20 interviews are used to highlight the important defining factors from within the family firm and propose a family firm definition and a measurement tool. Investigating the same phenomena from different stakeholders' perspectives is left to future research. To this end, interviews with various stakeholder groups would be an insightful approach. These management-control arguments, the proposed definition, and the proposed family firm familiness measurement tool represent, in our view, interesting avenues for future empirical research.

This paper underlines the family firms' preference to grow organically and avoid external debt to maintain financial independence and uphold family control. But debt is known to be a low-cost source of capital and, accordingly, we suggest that future research tackles the issue of potential business opportunities lost by avoiding using debt for future projects and expansions. Future research can answer the following questions: What are the consequences to only expanding by organic growth? What are the costs and benefits of family firms' financial independence? Moreover, the long-term horizon of family firms, combined with their low appetite for external debt, makes an interesting setting for management accounting research on criteria and technologies used in the investment decision-making process at family firms. For example, future research can answer the following questions: What are the criteria used for a family business to expand or to invest in a new project? Which capital budgeting techniques do they use?

Finally, this paper also sheds light on an important side of the succession process that happens when the founders or current owners-managers of family firms are faced, usually at a later stage of their career, with the fact that they will not have any family members to succeed them in running the family firm. Future research can investigate the reasons why family firms' owners-managers prefer to sell off their firms to having non-family management when they cannot ensure the involvement of anyone from the next generation in the firm. Could this fact potentially influence the valuation of the business? Would it be better to sell a family firm while the family manager is in power, or is it better for the heirs to sell immediately after the family manager's death or retirement? We present these questions as potential avenues for future research on the costs of changing ownership under these specific circumstances.

Chapter 3 – Calibrating Management Control Technologies and the Dual Identity of Family Firms

Abstract

Family firms possess dual identities, being the family and the business, which can be segmented and integrated to various degrees. This study examines whether and how management control technologies are calibrated to fit into the dual identities of family firms.

A qualitative study of 20 family firms was conducted using semi-structured in-depth interviews with owner-managers, drawings of mental maps, and publicly available information. We developed and used the notion of calibration, with its three components of graduation, purpose and reference, as an organizing device for our interpretive understanding of the management control usage and its relation to family firms' dual identities.

The study finds that the use of calculative, family-centric and procedural management controls - in sum the pervasive use of management control technologies – are associated with a professionalization of the family firm, a foregrounding of the business identity and a reduction of the disadvantageous side of familiness. In comparison, the pragmatic and minimal use of management control technologies are found to be associated with an emphasis on family identity. It transpires as liberating, engendering trust, and unfolding a familial environment. Since results are derived from a qualitative approach, they are not generalizable at an empirical level. By showing how the use of management control technologies is calibrated with reference to family firms' dual identities, the paper reveals the perceived potency of control technologies to affect the identity of firms. Thereby, this study provides an account of how management control technologies are expected to change the identity of firms.

This paper contributes to the management control and family business literatures as it uncovers how management control technologies are calibrated in reference to family firms' dual identities. It shows that calculative, family-centric and procedural management controls are used to professionalize the firm and strengthen its business identity as well as to reduce the negative effects of the family identity. The paper also illustrates how the liberating force of using pragmatic and minimal control technologies can serve to give prominence to the family identity.

Keywords: Family firm, Management control technologies, Family firm identity, Dual identity

3.1. Introduction

Our paper investigates how owners-managers of family firms view and reconcile their use of management control technologies with the identity of their firm. On the one hand, a unique characteristic of family firms is their dual "family-business" identity, in other words, the interaction of family and business systems (Ensley and Pearson, 2005; Habbershon and Williams, 1999; Habbershon *et al.*, 2003; Sundaramurthy and Kreiner, 2008; Zellweger *et al.*, 2010). Such an interaction can lead to tensions between the economic imperative of the business system and the emotional wealth imperative of the family system. For example, family firms seem to engage in less diversification – despite greater business risk – possibly since diversification reduces the control by the family as more non-family members need to hold leadership position in the diverse business units (Gómez-Mejía *et al.*, 2010). Similarly, technological diversification appears to be less frequent among family firms in high-technology industries as this would usually lead to a migration of ownership toward institutional investors or venture capitalists (Gómez-Mejía *et al.*, 2011). Likewise, Gómez-Mejía *et al.* (2007) show that family-owned olive oil mills are less likely to join cooperatives as this is perceived as implying a loss of control and independence – despite the financial and risk reduction benefits offered by cooperatives. These examples illustrate the strategic choices of family firms, which trade an economic imperative for an emotional wealth imperative (Berrone *et al.*, 2012; Deephouse and Jaskiewicz, 2013; Gómez-Mejía *et al.*, 2010, Gómez-Mejía et al., 2011).

In the family business literature, this perspective is theorized as socioemotional wealth, in other words, family firms direct their decisions and actions to preserve their stock of accumulated socioemotional wealth. Socioemotional wealth refers hereby to the "nonfinancial aspects or "affective endowments" of family owners" (Berrone *et al.*, 2012, p. 2), such as control and influence by the family, identification with the firm, binding social ties, emotional attachment, and dynastic succession (see Berrone *et al.*, 2012). It is argued that family firms prioritize nonfinancial goals (Chua *et al.*, 1999; Zellweger and Astrachan, 2008; Zellweger et al., 2013) and in particular family-centered goals (Carney, 2005; Miller and Le Breton-Miller, 2006; Miller *et al.*, 2008), such as transgenerational control (Gómez-Mejía *et al.*, 2007; Zellweger *et al.*, 2012).

In our reading, by suggesting that family firms prioritize an affective logic over an economic logic, the socioemotional perspective on family firms acknowledges the sometimes conflicting control ambitions of family firms between economic rationality and familial affectivity. As mentioned by Berrone *et al.* (2012), "When there is a threat to that [socioemotional] endowment, the family is willing to make decisions that are not driven by an economic logic" (p. 2). In light of the interacting business and family systems, family firms face henceforth a dual – sometimes competing – control ambition of nurturing economic rationality and familial affectivity.

To accomplish their control ambition, on the other hand, organisations implement management controls, which are often referred to as practices of influencing behaviour and supporting organisations in their accomplishment of objectives (Anthony, 1965; Flamholtz *et al.*, 1985; Anthony *et al.*, 1989; Merchant and Van der Stede, 2007). In this respect, extant literature delineates how control can be carried out in a multiplicity of ways, leading to various classifications of levers, types, uses or functions of control (e.g. Anthony *et al.*, 1989; Ouchi, 1977; Simons, 1995; Tessier and Otley, 2012). Organisations revert to these different controls, which management control research has referred to as management control packages (Otley, 1980; Malmi and Brown, 2008). These control packages reveal how controls carry a dual role as controls are used to enable and to constrain behaviour (e.g. Ahrens and Chapman, 2004; Mundy, 2010; Tessier and Otley, 2012; Wouters and Wilderom, 2008).

Typically management control technologies, such as performance measures, financial reports, balanced scorecards, budgets and the like are perceived to be at the core of control. However, an economic logic seems to reside in these technologies (Boedker and Chua, 2013), supporting rational decision-making by providing information transparency. For example, extant literature on accounting and family firms shows how it helps to enhance economic wealth (Blumentritt, 2006; Filbeck and Lee, 2000; Hiebl *et al.*, 2013; Speckbacher and Wentges, 2012). However, management control technologies may impair emotional wealth as decision settings are infused into a countable monetary frame, excluding their emotive side (Choudhury, 1988; Catasús, 2008). Henceforth, refraining from reverting to management control technologies may be liberating by letting trust, constructive ambivalence, symbolic meaning and liberating forces unfold (Choudhury, 1988; Hänninen, 1995; Jacobs and Kemp, 2002; Munro, 1995).

Given the dual – and sometimes competing – control ambition of nurturing economic rationality and familial affectivity, the context of family firms not only provides an economically relevant[1] empirical setting for scholars, but foremost a rich empirical setting for examining how management control technologies are adapted in light of these – sometimes competing – logics of rationality and affectivity, resulting from family firms' dual identity. Therefore, this paper examines the research question of how management control technologies are calibrated to fit into the dual identity of family firms.

To answer this question, we conducted a qualitative interview-based study with 20 Canadian family firms, varying in size, industry and governance characteristics. In these firms, we interviewed the owner-manager about their family firm's objectives and use of management control. We find that family firms calibrate management control technologies for particular purposes with reference to their family-business identity. Calibrating more pervasive technological controls inside the family firms, such as using calculative, family-centric or procedural controls is viewed as strengthening the business identity and as reducing the family identity of their family business. In comparison, our interviewees' narratives on the minimal use, or perceived absence, of management control technologies suggests that it accentuates and fosters family identity. Offered explanations for not using management control technologies relate among others to the family culture and people focus in their firms. Hence, reverting to management control technologies becomes related in a unilateral way to the business identity of the firm, despite the dual control ambition of family firms.

This paper contributes to the management control and family business literatures by showing how calibrating management control technologies unfold in reference to family firms' dual identity. In particular, our analysis shows that family firms do not calibrate management

[1]According to the family firm institute, family business generates an estimated 70% to 90% of the annual global GDP (http://www.ffi.org/page/globaldatapoints). In Canada, for example, family-owned businesses generate approximately 60% of Canada's GDP and employ 6 million workers while also creating 70% of all new jobs in North America.

control technologies in a way that embraces the dual control ambition as we would expect from the dual role of controls discussed in management control literature (Mundy, 2010; Simons, 1995; Tessier and Otley, 2012). Moreover, we find that affectivity is not per se prioritised over economic[2] rationality as the socioemotional wealth perspective would indicate (Berrone *et al.*, 2012; Deephouse and Jaskiewicz, 2013; Gómez-Mejía *et al.,* 2007; Gómez-Mejía *et al.*, 2010). Instead, calibrating management control technologies seems to become an act of dissolving the dual control ambition by translating a duality into a dichotomy. In this dichotomy of economic rationality versus familial affectivity, reverting to management control technologies is associated with strengthening the former, while weakening the latter. Overall, by showing how the studied firms relate their use of management control technologies to their firm's identity, this paper shows how management control technologies, such as calculative and procedural controls, are expected to change the identity of the firm. The interviewed owners-managers show a strong belief in the potency of management control technologies to alter the dual identity of the firm.

Our paper is structured as follows. Next we provide some conceptual underpinnings to our enquiry, mostly by discussing the dual identity of family firms and how it engenders a dual control ambition. We then elaborate on the dual role of controls and develop the notion of calibration. The subsequent section presents the research approach for our qualitative inquiry. Thereafter we provide some key empirical insights from our interviews and discuss our results. Concluding remarks follow in the end.

3.2. Conceptual underpinnings: Dual identity, management control and calibration

3.2.1. Family firms' dual identity

Much prior research on family firms seeks to explain how they differ from non-family firms (Bird *et al.*, 2002; Chrisman *et al.*, 2008; Miller *et al.*, 2008, Zellweger *et al.*, 2010). A key reason for family firms' uniqueness and distinctiveness is their dual identity with overlapping family and business systems (Sundaramurthy and Kreiner, 2008; Zellweger *et al.*, 2013) or the

[2]We are using the term "economic rationality", instead of referring to rationality, as the socioemotional wealth perspective posits that family firms might act as rational as non-family firms, yet prioritising preserving socioemotional wealth as criteria for judgment (Gómez-Mejía *et al.*, 2007).

so-called “familiness” (Ensley and Pearson, 2005; Habbershom and Williams, 1999; Habbershon *et al.*, 2003; Zellweger *et al.,* 2010). Rooted in the resource-based view, the notion of familiness refers to the idiosyncratic “bundle of resources and capabilities resulting from the [family and business] systems interactions” (Habbershon *et al.*, 2003, p. 451). In other words, family involvement and interaction (Chrisman *et al.*, 2003) or the “family stuff” (Habbershom and Williams, 1999, p. 1) is seen as distinguishing resource and source for competitive advantage, contributing to family firms’ uniqueness (Chrisman *et al.*, 2005).

Besides explaining differences between family and non-family firms, family firm research also seeks to explain the heterogeneity among family firms (Chua *et al.*, 2012; Westhead and Howorth, 2007). Hereby, family firms’ dual identity and the notion of familiness have been emphasised as well to provide reasons for the salient variety among family firms. For example, different configurations along the “separation-integration” continuum between family and business systems (Sundaramurthy and Kreiner, 2008) or varying degrees of familiness in terms family involvement, behaviour of family members, and organisational identity (Zellweger *et al.*, 2010) are associated with heterogeneity among family firms. The ambivalence of the family system with its potential benefits and drawbacks provides another potential explanation for the variety among family firms (Tagiuri and Davis, 1996; Kellermanns *et al.*, 2012).

Prior research acknowledges that family firms possess two identities, being the family and the business (Klein, 2008; Sundaramurthy and Kreiner, 2008). In our reading of the dual identity, the family identity is in essence associated with familial affectivity. Stewardship characteristics, such as continuity or longevity of the firm, community culture with employees and strong social ties with outside stakeholders such as customers are some of the positive affective attributes attached to the family identity (Miller *et al.*, 2008). By contrast, resentment, nepotism and conflict are some of its negative affective attributes (Schulze *et al.*, 2001). In comparison, the business identity is associated with economic rationality. Hence, acclaimed professionalism and objectivity, at the expense of a sense of belonging or shared identity (Shepherd and Haynie, 2009; Sundaramurthy and Kreiner, 2008) are some of the positive and negative attributes attached to the business identity. Henceforth, both the familial affective and the economic rational side of the dual identity carry productive and detrimental consequences for family firms (Sundaramurthy and Kreiner, 2008; Tagiuri and Davis, 1996; Zellweger *et al.*, 2010).

Within family firms, "harnessing the benefits of the dual identities […] is a critical governance dilemma for family businesses" (Sundaramurthy and Kreiner, 2008, p. 415). Family firms respond to this dilemma by segmenting and integrating both identities to various degrees (Klein, 2008; Sundaramurthy and Kreiner, 2008). For example, some family firms integrate both identities to a greater extent than others in order to use the family aspect as an idiosyncratic resource and capability for enhancing the firm's competitive position (Habbershon *et al.*, 2003). Positive attributes of the family system, such as transgenerational vision, familiarity or care (Miller et al., 2008) are brought into the business system when both identities are integrated. By contrast, other family firms either consciously detach both identities or go so far as to not even perceive the family-controlled firm as a family business (Westhead and Cowling, 1998), thus negating the "dark side" of family firms (Kellermanns *et al.*, 2012), such as conflict, resentment, and also the lack of professionalism and objectivity.

From a management control perspective, the dilemma of harnessing the positive attributes of the interacting business and family system while limiting the negative attributes of that system translates into a dual – at times competing – control ambition of nurturing economic rationality and familial affectivity. Next we discuss how management control addresses dual control ambitions.

3.2.2. Dual role of management control

Management control is commonly understood as a package, consisting of various different control practices that potentially complement or substitute each other (Chenhall, 2003; Dent, 1990; Ferreira and Otley, 2009; Fisher, 1998; Flamholtz *et al.*, 1985; Malmi and Brown, 2008; Otley, 1980). While management control as a package refers to the complete set of management controls in place – which are sometimes only very closely coupled – management control as a system refers to conscious design choices for interdependent controls (Ferreira and Otley, 2009; Grabner and Moers, 2013). Multiple management control frameworks have been proposed to describe how these management control packages can help achieve organisational objectives (e.g. Malmi and Brown, 2008; Simons, 1990; Tessier and Otley, 2012). These frameworks envision not only the multiplicity of controls which that organisation can revert to but also the dual role of controls in enabling and constraining behaviour.

Guided by the question of how to manage tensions "between freedom and constraint, between empowerment and accountability, between top-down direction and bottom-up creativity, between experimentation and efficiency" (Simons, 1995, p. 4), Simons' (1995) levers of control framework is built on opposing, but complementary, forces which he refers to as negative and positive controls. Hereby, belief systems and interactive systems serve as positive levers of control, while boundary systems and diagnostic control systems serve as negative levers of control. As argued by Tessier and Otley (2012) in their revised proposition of the levers of a control framework, positive and negative controls are used in extant literature not only to describe the dual role of controls but also to judge the quality of controls. To avoid this ambiguity, the authors suggest referring to these controls as either enabling or constraining instead to emphasise their dual role.

The dual role of controls is described alternatively as coercive/enabling, controlling/enabling or constraining/enabling (Ahrens and Chapman, 2004; Mundy, 2010; Wouters and Wilderom, 2008). Such descriptions reflect the fact that management controls "… are used to exert control over the attainment of organisational goals, and also to enable employees to search for opportunities and solve problems" (Mundy, 2010, p. 499). The role of controls is not simply compliance but also one of empowering creative ways of conduct. Yet, how to embrace their dual role?

Balancing control levers (Simons, 1995) and adopting opposing but complementing forces, such as enabling and constraining or interactive and diagnostics use (Tessier and Otley, 2012), suggests embracing the dual role of control not as a dualism but as a duality[3]. For example, Simons (2000) emphasises that the power of the levers of control

[3]We acknowledge that the notion of "dualism" and "duality" has a rich debate in social science (e.g. Bourdieu, 1977; Elias, 1991; Giddens, 1984), which also entered accounting research. Instead of entering into the ontological debate

> in implementing strategy does not lie in how each is used alone, but rather in how they complement each other when used together. The interplay of positive and negative forces creates a dynamic tension between opportunistic innovation and predictable goal achievement that is necessary to simulate and control profitable growth (p. 301).

Empirical evidence suggests that embracing this duality is difficult. In their study of a restaurant chain, Ahrens and Chapman (2004) show how coercive controls generate mistrust, resentment and even robotic management, while enabling controls engendered flexibility in local restaurant practices.

The notion of management control packages envisions that control can be carried out in multiple ways. Accounting, broadly understood as calculative practices and technologies, is commonly perceived to be at the core of control. Performance measures, financial reports, balanced scorecards, budgets and the like are some of the calculative technologies and inscriptions used to implement control. Studying accounting in its organisational context has already unearthed how diverse accounting can be once it operates and intermingles with organisational practices (Hopwood, 1983). For instance, accounting can act as an answering machine and as a learning machine to support decisions and actions (Burchell *et al.*, 1980). It can be used as a rationalisation machine to justify and legitimize decisions and actions and it can also be used as a political machine that arms decision-makers for promoting their interests and improving their position (Ibid., 1980). Seeing accounting as a machine reveals that it is not merely a passive representation of reality, instead it actively generates realities and mobilises actors and actions. As an illustration, accounting acts as a mediating instrument that governs dispersed actors (Miller and O'Leary, 2007) and its inscriptions engage users through its mobile, stable, and combinable properties at a distance (Robson, 1992) and through its visual and rhetorical power (Busco and Quattrone, 2015; Quattrone, 2009). Accounting is an (knowledge) engine (Revellino and Mouritsen, 2015), instrumental for organizational control.

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of how the social transpires as dualism or duality, we use the two terms to reflect on how the dual nature of control is portrayed in management control research as well as how interviewees used and made use of their dual identity to calibrate management control (see the Discussion section). Duality is understood as two mutually constitutive constructs, while dualism is understood as two opposed constructs (e.g., Farjoun, 2010).

However, an economic logic seems to reside in these calculative practices and technologies (Boedker and Chua, 2013). Accounting is said to support rational decision-making by providing information transparency. Extant literature on accounting and family firms shows how it helps to enhance economic wealth (Blumentritt, 2006; Filbeck and Lee, 2000; Hiebl *et al.*, 2013; Speckbacher and Wentges, 2012). However, accounting may impair emotional wealth as decision settings are infused into a countable monetary frame, excluding their emotive side (Choudhury, 1988; Catasús, 2008). Henceforth, the lack of such calculative practices and technologies may be liberating in the sense of letting trust, constructive ambivalence, symbolic meaning and liberating forces unfold (Choudhury, 1988; Hänninen, 1995; Jacobs and Kemp, 2002; Munro, 1995).

In comparison to a purely economic logic on accounting, Boedker and Chua (2013) introduced an affective view on accounting by illustrating how accounting technologies circulate affect in organisations across time and space and likewise how affect molds accounting technologies. Thereby, they show how affect (re)produced by accounting technologies along with cognitive calculation generates organisational action. It is the duality of rationality and intelligibility along with affect and passion, enmeshing accounting, which renders a response to calculative practices and technologies. However, to date management control research has not investigated how this duality is calibrated. Given the dual identity of family firms, the context of family firms provide a rich empirical setting to examine how management control technologies are calibrated in light of the dual control ambition of economic rationality and familial affectivity. In the following section, we develop the notion of calibration.

3.2.3. The notion of calibration

In the context of measurement technology[4], the notion of calibration is used by researchers to describe the practices of adjusting measuring devices and their readings to a) conform to the measuring standard (i.e., calibrator) and b) to correspond to the purpose of measuring. As

[4]A different understanding of calibration resides in the field of economics. Here calibration refers to fixing model parameters in order to observe the properties of non-fixated variables in the model. In a military context, calibration refers to the range within which a fired projectile hit the target. However, these understandings are not pursued in this paper.

activities, calibration involves i) comparing the measuring device to a calibrator, which serves as reference for calibration, ii) determining graduations, and iii) amending the calibration for a particular function or purpose. As a simple example, a thermometer is calibrated in order to precisely sense the temperature. For this, a measuring standard, such as Celsius, Fahrenheit or Kelvin is necessary to render the measured results easily interpretable. Ten degrees Celsius are interpretable with reference to the measuring standard from freezing water (0 degrees Celsius) to boiling water (100 degrees Celsius). Despite referring to a measuring standard, calibration also involves determining graduations. Referring to the thermometer example above, graduation implies marking the measuring device by an index of degrees. Calibration further means to fine-tune a measuring device for a particular purpose or function. For example, measuring the room temperature to regulate the heating system requires a different calibration than measuring temperature in steel production. Calibration therefore encompasses also attuning measuring devices for a particular function. Overall, the notion of calibration implies comparing to a standard or reference, determining a graduation, and adjusting the calibration for a particular function.

In the context of management control, the notion of calibration refers to the activities rendering management control amenable to facilitate its role in supporting the attainment of organisational objectives. In a contingency-based research, calibration could be understood as configuring a set of management controls in a way that fits the organisational environment effectively (e.g. Chenhall, 2003). Until now, this contingency-based view has been the prominent perspective in management control research on family firms, delineating how firm size, organisational life cycle stage (Mores and Mula, 2000) and various governance characteristics (e.g. Blumentritt, 2006; Hiebl *et al.*, 2013; Speckbacher and Wentges, 2012) trigger different uses of control mechanisms. For instance, in family firms, clan controls are the dominant control type in the early stages of the organisational life cycle, bureaucratic controls pervade the subsequent formalisation and control stage, and market-based controls become the salient control strategy in the later development stage (Mores and Mula, 2000). These findings correspond to the general life-cycle perspective on management control adoption in management accounting and control research (e.g. Cardinal *et al.*, 2004; Davila *et al.*, 2009; Moores and Yuen, 2001).

Instead of understanding calibration as a configuration of management controls, we understand calibration as a means through which the dual role of controls is attuned. For example, the role of management control practices has been associated with its potential of transferring knowledge from owners to managers as well as over generations (Giovannoni *et al.*, 2011). As illustrated by the case study on an Italian children's wear family firm, management control practices emerge as a means through which "priorities, values, and vision of the entrepreneur" (Giovannoni *et al.*, 2011, p. 126) are represented and reproduced. In other words, management controls are calibrated to enable knowledge transfer across generations and between owners and managers, to preserve and transmit the founder's values, and at the same time to professionalise the firm.

3.3. Research approach

While qualitative research can be conducted from different understandings (e.g. Power and Gendron 2015; Hansen, 2011), this study embraces an interpretive understanding of qualitative research. Choosing an interpretive understanding implicates that the qualitative inquiry is less a question of method than a question of methodology (Ahrens and Chapman, 2006), referring to the way of approaching the research topic (Silverman, 1993). An interpretive understanding can be regarded as an iterative reflective act (Ahrens *et al.*, 2008; Ahrens and Chapman, 2006; Lukka and Modell, 2010). Ahrens and Chapman (2006) also note that "doing qualitative field studies is not simply empirical but a profound theoretical activity" (p. 820). It is a theoretical activity, where emic accounts (i.e. insider perspectives) become intermingled with etic, theoretically-informed ones (Lukka and Modell, 2010). Iterative refers herein to the on-going refinement, whereby the case study "is the outcome of on-going theoretical repositioning together with redefinitions of the concepts used within qualitative methodology, the development of new and discarding of old hypotheses, changes to the method, and redrawing of the boundaries of the field" (Ahrens and Chapman, 2006, p. 827). In the context of our study, we developed the notion of calibration as a conceptual framework for organising and at the same time disciplining our reflection on the generated insights.

With respect to suggested quality criteria for validating interpretive research, trustworthiness (credibility, transferability, dependability and confirmability) (Guba and Lincoln, 1982, p. 250), credible accounts (Lukka and Kasanen, 1995; Parker, 2012) and validation in terms of authenticity and plausibility (Lukka and Modell, 2010, p. 469) have been emphasised. The act of "stressing the process-oriented view on validation" (Lukka and Modell, 2010, p. 469) does not look to techniques and tactics to ensure quality but rather to the process of the interpretive act. As a result, we saw it as our role to render the way we approach the research project transparent. In the following section we therefore explain our reflections of selecting our interviewed family firms, collecting the data and analysing the data.

3.3.1. Interviewed family firms

We interviewed the owners/CEOs of 20 Canadian family firms. The selection of the interviewed family firms was guided by the idea of striving towards maximum variation (Flyvbjerg, 2006). As a so-called maximum variation case study, it is then composed of cases that are different, sometime opposites, on some dimensions (Cooper and Morgan, 2008). While this technique is usually used in a more positivistic understanding of case studies to strengthen the generalizability of a theory to indicate that it may apply across a wide range of firm cases, our intention was different. We strove for variation in order to generate rich and plural field-based insights to generate an in-depth understanding from within the field. To capture our targeted variation in cases, we reverted to the debate on family firms' heterogeneity and used suggested factors such as firm size, industry and governance characteristics that influence the use of management control in family firms. To identify potential family firms, we used the information from the Canadian Association of Family Enterprise[5].

Appendix 1 provides some basic information on the family firms represented in our study, namely, the heterogeneity of interviewed family firms in terms of industry, size, ownership, governance characteristics and family involvement in management. While a majority of firms are owned by the founder and managed by the founder or by a joint team of founders and next-

[5] Two interviews were arranged with the help of a referral from interviewees.

generation family members, the strong presence of the founder in the business fits with our inquiry about calibrating management control in light of the family firm's dual identity.

3.3.2. Data collection

Our data collection relies on three sources: semi-structured interviews, drawings of a mental map by the interviewees and publicly available background information on the interviewed family firms from company homepages, business press or newspaper articles. Interviews were conducted with the owner-manager as the central figure in influencing the family firm. In particular, extant literature discusses the crucial role of the founder (or owner-manager) in forming the family firm's identity (Miller *et al.*, 2008). Interviews were conducted at the location of the family firm, lasted on average 43 minutes, and were with the exception of three interviews recorded and subsequently transcribed. The positions of our interviewees in the family firms are also listed in Appendix 1.

An interview guide was prepared for the semi-structured interviews, comprising three parts. The first part of the interview focused on investigating the dual identity of the family firm, namely by asking the interviewee to draw a mental map of how she or he sees the family business. For this, an A3-size paper and pencil was provided to the interviewee. Our intention was to elicit the interviewee's understanding of the family firm, providing a glimpse into how the owner-manager sees the family firm. We later used the mental maps in our analysis of the family and business identities. Follow-up questions focused on the purpose of the firm, its goals and relevant stakeholders. The second part of the interview moved towards the topic of management control, asking questions about how the family firm measures and manages the previously articulated goals, what kind of management controls it uses, and why it uses these management controls. The third part focused on the family side of the business and involved questions about the firm's ownership and management profile as a means to grasp its familiness. Due to the sometimes limited publicly available information on family firms, this third part included survey-type questions on the family firm's ownership profile. Our interview guide is provided in Appendix 2. While it provided the general structure for the interviews, the interviews remained open to allow for new lines of discovery and to leave enough room for the interview partner to think-aloud and report the information she or he found most relevant (Patton, 2002).

3.3.3. Data analysis

Our data analysis comprised two rounds. In the first round, we coded the collected data in terms of information on the family firm's identity and with respect to the use of management controls. This resulted in a descriptive understanding of the interviewed family firms. In our second round of data analysis, we took an interpretive stance on the data to explore how interviewees reason and explain their degree of using management controls and their references to the family firm's identity. For this we used the above developed notion of calibration with its three components of graduation, purpose and reference as an organizing device for our interpretive understanding of the data. Table 1 below depicts how we used three questions based on the three elements of calibration to interpret the collected data.

Table 1: Organizing the second round of data analysis

Graduation	**Purpose**	**Reference**
In which graduation does management control emerge?	What is the articulated purpose of (not) using management control?	How is the relationship between management control and the family firm's dual identity perceived?

In this sense, the second round of data analysis can be understood as an iterative process of going back and forth between the emic and the etic understanding of the phenomenon of interest (Lukka and Modell, 2010) or, in the words of Baxter and Chua (1998), "theorizing is about moving from the general to the local to the general – about ideas and concepts that 'sent' you to the field and about discovering and crafting the transcendental argument that makes sense of your fieldwork" (pp. 80-81). Next, we present the results of our data analysis to unveil the suggested transcendental argument of our study.

3.4. Empirical insights: Calibrating controls and family firms' identity

3.4.1. Calibrating calculative controls for business success and growth

Inquiring about the use of management controls, interviewees referred to key performance indicators. In particular, financial performance data, sales reports and productivity measures were reported as supporting these family firms in controlling their businesses.

> We have J.D. Edwards software. We also have ERP system. We have business indicators, a dashboard on which they give us the ultimate info to make decisions with speed and agility. I keep track of the number of employees I have every month. I also look at our cash flow, service revenue by client, gross contribution margin by client, gross contribution margin by business unit, revenue by state, province, and Europe. I get monthly reports and if we need to dive deeper we go further in. (Company S1)

The president and CEO of family firm G2 articulated as his responsibility to put calculative controls for the growth and success of the firm in place that track financial performance, but also non-financial performance, such as employee satisfaction. Aimed at continuous growth, he highlighted,

> So my daily goal is to be there to give all the necessary tools to my business so it can continue to grow and take its place in the market. So we track our return on investment and profitability goals which we certainly accomplish on a yearly basis. Some of the other factors we use, like, retention rate on employees. We're participating in a contest for the seventh time this year, Best Managed Business in Canada. We've been named year after year, and so this year's the last year where we normally get the Platinum Award, which should normally, because of the year we're experiencing, should be a fact, should be done. We've just participated in a contest, Employers of Choice or Best Place to Work, and we've performed very well. And we're continuing to improve this. (Company G2)

Employee choice awards gave an external assessment and benchmark for "being an attractive good business" (Company G2). The president and CEO of family firm G2 saw the relevance in calculative controls for ensuring that the family firm reaches "an appreciative standard" (Company G2). In his own terms, he explained:

> And so I said, we have to make ourselves more attractive, so let's make sure that: a) we have all the best IT tools, etc. and b) let's make sure we're attractive to people so when they have to choose, they choose for the best, not for the… we're not just the little guy in the corner, but we're looked at as being an attractive good business. So best employer of choice, best managed companies. It's all part of our philosophy where we want to make sure that we reach an appreciative standard where people look at us and say, wow, this is where I want to work. (Company G2)

For the president and CEO, controls were calibrated around calculative tools for managing the growth and success of the family firm and for supporting the achievement of his objective: "being an attractive good business" (Company G2) with "an appreciative standard" (Company G2). He referred to these calculative controls to business success, emphasizing the economic identity of the family business. "We're not just the little guy in the corner" (Company G2), instead he wanted to see his firm as a firm that potential employees should look at. "This is where I want to work" (Company G2), not because of family values but because of the best IT tools, being the best managed company, and having an appreciative standard – all of which his financial and non-financial controls supported.

Others reported that they have implemented an enterprise resource planning system and relied on the calculations produced by these systems to successfully run the family firm. The president of family firm T1, reported to us his pioneering role in implementing SAP, even generating a competitive advantage,

> We were one of the, I guess, pioneers, in a way, with SAP, the German ERP system that we put in place, integrated in 2003. In 2003, 15 years ago, that was very ahead of its time for us to choose a system like SAP for such a small company that we were. It became a competitive advantage to have such a great system that could give us a great report. (Company T1).

With help of the enterprise resource planning system, he enthusiastically described us the various KPIs his family used for performance management. For example, he delineated the detailed metric for stock turnovers,

> …we also look at a whole bunch of metrics like stock turnovers. […] Looking at stock turns, looking at also quality of the stock, looking at what the value of that stock has, every quarter we revisit the stock aging and quality of it. We do line reviews to look at every SKU, the turns, the profitability. (Company T1)

3.4.2. Calibrating calculative controls for corporate functionality

Similarly to Company G2, family firm E1 also used a collection of key performance indicators.

> So, the way I function is, I manage the revenue, we manage a number of customers, average revenue per customer, general profitability, loyalty renewals, employee renewals, all kinds of KPI's on customer satisfaction, on customer engagement. So revenue by employee, profit by employee, portion of productivity. (Company E1)

The CEO of Company E1 did not regard his business as a family business, despite being the founder and owning 100% of the company. In his words, "So it's not a family business, but it's a business that treats everyone like family. So that's the family aspect of what we do, which means that you know, we come in with all the functionality of a corporation, yet we behave and act like a family" (Company E1). The founder of E1 saw the family-like behaviour of the firm, but his emphasis was on the business side of the firm. He even wanted to distance his firm from the negative image of a family business, in particular when speaking with large companies, "And the final perspective is I don't think I can go to another large enterprise if the perception is that I am a family business. Because it's, family is small, it's far less space in terms of viability" (Company E1).

In his emphasis on the business system of the firm, he calibrated controls around KPIs. Running the business based on a collection of KPIs ensured "corporate functionality" (Company E1). Calculative controls were referred to the business identity of the firm.

3.4.3. Calibrating calculative controls for de-emotionalizing decision-making

Calibrating calculative controls were also referred to by interviewees with the purpose of reducing emotions in decision-making. Interviewees saw KPI calculations as a rational, not an emotional logic choice. The co-CEO of the family firm V1, for example, highlighted how he is planning to install calculative controls to reduce emotions in decision-making processes. He explained to us how in the past he and his brother sometimes took emotional decisions, sacrificing at times results for family:

> It's a funny thing. We're trying to make it not a non-family business, but we're trying to structure it like a corporation eventually, so there is this balance. Not saying that a non-family business has its benefits because we're looking more at the results. Family business sometimes sacrifices a little bit the results for the sake of family, it can happen. Over the years, it has. Where my brother felt adamant about something or I felt adamant and he said: Okay, go ahead. If you feel that way, go ahead! It's not always been the right decision. You've got to watch yourself over there because emotions do come. It's much more of an emotional job when it's with family. (Company V1)

Calculative controls were regarded as means to bring rationality into the decision-making processes in the "much more […] emotional job when it's with family" (Company V1). As summarised by the CEO of Company S2, "In a family context there's a bit of emotion involved in the decision-making process. In a non-family environment, it's not about emotion. It's all about strategy" (Company S2). Phrased as "corporate functionality" in the case of family firm E1, a "corporate feel" in the case of family firm V1, or as "governance of a public firm" in the case of family firm S2, calculative controls were associated with reducing emotions in decision-making processes.

3.4.4. Calibrating family-centric controls for professionalising the firm and reducing the harmful side of family involvement

Interviewees delineated how controls were directed to govern the degree of family involvement, including succession planning. In these cases, calibrating control was directed towards limiting and regulating family involvement in the firm. For this, the calibration centered on establishing family-centric controls, such as procedures for succession, independent board of directors, or rules for successor's educational and work-related experience.

> And for the next generation it's actually all planned out already. The next generation will need to have at least two bachelors or a master and a bachelor, will need to have worked five years elsewhere and have success there before they're even considered to come into the business. (Company B2)

For example, the CEO of a public family firm, Company S2, reflected in his interview on the transition from a private to a public family firm and how the installment of family-centric controls were implicated in this transition. Family-centric controls served to limit the level of family involvement in the firm and to provide standards for succession. These family-centric controls became necessary as in the past family members simply took the company's produced food from the inventories for their own consumption. Family fights occurred and the CEO complained about the emotionally charged work environment.

> Because when it's emotion, I talked about, you know, getting a product from the plant and putting it in the car and going home, and there will be internal family fights because the inventories don't balance, but you figure it out. But you can't do that once you get to the next generation, because now we're tens of grandkids, and then they have kids, and we end up being hundreds and hundreds of family members, all fighting for putting the blanket on our side. So we needed to control that through a board structure, independent, good corporate governance. And when it comes to issues like who's going to succeed the CEO, well there's going to be a process involved. (Company S2)

In his opinion, therefore, controls that focused on limiting and regulating family involvement had to be calibrated. With reference to "good corporate governance" (Company S2) and building a firm for the generations to come, calibrating family involvement meant to install an independent board of directors, remove family members from the directorship of the business, define procedures for CEO succession, and abolish any privileges for family members, working in the firm.

> We need to find a way to get this company built for the next generation and generations beyond that, and the only way we can do that is by creating a board of directors that is made up of independent directors that has the best interest of the company in mind, but were looking at things not from an emotional perspective, but from a logical perspective. (Company S2)

Nowadays if family members work in the company, they receive no more rights than any other employee of the company. As the president explained, “they [family members] have no more rights than any other employee of the company” (Company S2). For him the use of family-centric controls that limited the influence of family members in the firm and regulated CEO succession had the purpose to professionalise the firm and to reduce the harmful side of family involvement in the business. As he summarised, “I want the governance of a public firm while keeping the family spirit in the company” (Company S2). To achieve this, control was calibrated around family-centric controls that reduced family involvement in the form of self-serving behaviour, favouritism, an emotionally charged work environment and family fights. Henceforth, control was related to the harmful side of the family system interacting with and in the business system. Calibrating controls were here implicated in lessening the family side of the firm. At the same time, the CEO tried to keep the family spirit in the company – yet no reference to particular control calibrations for this end was made.

3.4.5. Calibrating procedural controls for overcoming affective decision-making and instinctive way of conduct

Interviewees reported on their use, or intended future use, of procedural controls such as formalised procedures for decision-making or job descriptions, to ground business decisions less on emotions, instinct and gut feeling and more on a structured, rational economic logic. For example, the founder of firm A1 recently handed over control to his daughter and two sons and passed the president role to his daughter. In this context, she saw the future use of management control as a means through which she could bring structure to the current “work […] by instinct, by experience” (Company A1) that her father pursued. At the same time, she saw the future use of management control as a means through which she could stabilise the firm. In our interview with her, she underlined that “So, right now it’s important for us to maintain what we have, to stabilise” (Company A1). She planned, for example, to develop standards for taking decisions and to define ways of conduct for the family firm. When asking her about the use of management control, she talked about her father’s instinctive approach and her plan to change the way things were done at the family firm as follows:

> I don’t think he [the founder] had any standards that he was going by. And that’s something that, hopefully, we will be changing, because my dad worked by instinct, by experience, all these years, so he wasn’t, I guess, structured on paper. You know, that’s something that we’re going to have to work on, my brothers and I. Things will have to be structured. We have to develop standards that we will go by. We can’t just make a decision out of nothing, so those with time will change, definitely, but I don’t think my dad had a way, a specific way of dealing with it, no. (Company A1)

Calibrating controls were directed towards procedures for decision-making and formalising ways of conduct. These intentions were associated by interviewees with stabilising the conduct of the firm, providing more structure to the firm and overcoming the reliance on instinct, experience and gut feeling usually associated with the “family” way of doing business. Increasing the use of controls was henceforth referred to as shifting from affective to economic rational decision-making and changing the family firm’s way of conduct from instinct to structure. Hence, in this context, calibrating controls were implicated in overcoming affective decision-making and a way of conduct that focused on instinct and experience. Instead, rational decision-making and a structured way of conduct were viewed as the idealised state by the new president of Company A1. Calibrating procedural controls was the identified vehicle to achieve this state.

3.4.6. Calibrating procedural controls for professionalising the firm and relying on non-family members

Similar to Company A1, the co-CEO of family firm V1 referred to the future necessity of controls as “putting some organisation” (Company V1) within the firm. In addition, he referred this “need” as putting “a corporate feel to the company”. In his eyes, the firm had grown to a size which necessitated a more corporate-like environment. He expected that management control would bring more structure to the firm and would allow them “to rely on more people that are not family” (Interview V1).

> One of the things that we’re entering now is a phase where we’re getting to a size where we have more levels and we still like the concept of a family business and what it brings to the table, but we’re also looking at the corporate environment. And that’s a delicate balance where you don’t want to lose that family and that belonging of our employees feeling that they’re part of a family but at the same time getting large and getting to a size where you need to put controls, you need to have more of a structure and you need to rely on more people that are not family. And that is where we are now; we have a lot more layers today, we’re third generation. (Company V1)

In the context of high growth by the family firm, the co-CEO articulated the need to put greater emphasis on the business identity of the family firm. At the same time, the co-CEO expressed a wish to keep “the concept of a family business” (Interview V1). He highlighted the challenge he is facing in balancing the existing family feeling in the firm with a more corporate environment. This was in his eyes a “delicate balance” (Interview V1). Calibrating controls to provide more structure to the organisation was essential in fostering the business identity of the firm. However, he also saw the potential harm of doing so to the family identity of the firm since until then, employees had felt that they were part of the family.

3.4.7. Calibrating financial accounting controls for statutory requirements

Interviewees reported that their firm has no management control technologies in place, even though a financial accounting system had been set up to fulfil regulatory requirements for bookkeeping and tax filings. For example, the vice president of Company I1 informed us that his firm only uses the financial statements and has neither a performance measurement system nor any key performance indicators. A discussion as to why they are not using management control technologies in their family business initiated a conversation about relying on pragmatic management principles, gut-feeling, trust, people and family-like relationships within the firm, as delineated in the following sections. In that sense, management control technologies, encompassing calculative and procedural controls, were only minimally used. Instead, the interviewees' narratives on pragmatic management principles, gut-felling, trust, people, and family-like relationships within the firm indicate that forms of cultural control transpired in these cases.

3.4.8. Calibrating pragmatic controls for achieving firm goals

Interviewees who reported that they are not using management control technologies mentioned pragmatic controls for achieving their economic and non-economic goals. With regard to calibrating pragmatic control principles with an economic perspective, our interview with the president and CEO of Company C2 revealed, for example, how he relied on his gut feeling in measuring the performance of client projects. His family firm operated in the construction business and was therefore project-based. Commenting on how he controlled these projects, he reported pragmatic principles: "don't bust the budget" and "maximise profit/don't lose money", which he measured by his gut feeling and through client interaction.

> If you bust the budget, the client won't be happy. And if you don't maximise your profit or lose money on jobs, then you will eventually go bankrupt, so it's really these two, these are my two key indicators, but the way to measure them is by my gut feeling or, well, the client, I talk to them. (Company C2)

When we continued enquiring about potential indicators or tools in the interview, the president and CEO of Company C2 informed us that "that's something that I'm going to have to work within the next years". (Company C2), while highlighting again that he has so far relied on his gut feeling and a pragmatic principle of maximising profit on the project,

> Like I said before, I didn't spend too much time on strategizing vision and developing tools for that. I pretty much went with my gut and my, basically, when I had project manager the key success is measure by maximising the, maximising the costs and the budget on the job,

> so lower budget. It's not necessarily a percentage that he needs to get. He needs to maximise, some jobs you can make ten percent, some you can make two, and in either case you have maximised profit that you can take out of that job. (Company C2)

At the same time, he highlighted non-economic goals, which centred on continuity, longevity and succession. The president and CEO of Company C2 expressed his non-economic focus in the following way, "Well, for us, and I think for most family business, it's not just about making money or getting numbers or gaining target. It is also about continuity. It's about longevity of the company, where it's not just a question of numbers, it's the question of longevity" (Company C2). Henceforth, controlling the economic performance was not the most essential ambition for his firm.

Further interviewees also elaborated on pragmatic principles of how they embarked on achieving their non-economic goals, such as engagement in the community through donations. The co-CEO of family firm V1 reported how he thought about setting a donation target for the firm, but in the end decided to rely more on common sense and assessing the impact of their donation and support by their personal local involvement in the community. In the words of the co-CEO of family firm V1:

> Well we've discussed it [setting a donation target for the firm]. This is where family businesses sometimes, if it was a business, you just had a budget. Everybody, $50,000 in banks do that. …Us, it's not so much budgeted. It's relying on some common sense, relying on. We talk about it. We have an idea but we don't keep an eye on it. Some years we'll give more than others, it all depends. We don't make that decision just on a budgetary thing. And this is where the family comes in. (Company V1)

For him, these common-sense principles were a characteristic of being a family firm. "This is where the family comes in", as the co-CEO of family firm V1 stated, relating his reliance on "common sense" for the non-economic goal of community involvement to the family identity.

3.4.9. Calibrating minimal controls for engendering intimacy and a people-focus

Reverting not to management control technologies was, however, not only explained by pragmatic principles of running the family firm and a reliance on gut-feeling, it was also related to the affective side of family firms, which interviewees underscored. For example, talking about the perceived absence of management control technologies, the president and CEO of Company C1 underlined the family culture in his firm, where people are supportive and provide honest feedback when making business decisions. "In a family, the family members are able to tell each other, are you sure it's the right thing? There's an intimacy that is something you don't see at other businesses" (Company C1). He continued emphasising that people mattered most for him and made the difference between business failure and success.

> You know, this is a bad example but, when you have a piece of meat in your teeth, the person that is going to tell you is your wife. You need people around you who are close enough to tell you the things that will really make a difference. I think the failures of most businesses, from the smaller to the very big, is a personal failing. It's too much ambition, not listening, stubbornness, disrespect, lack of integrity. (Company C1)

To depict what he meant by a family culture and that people mattered, he liked to highlight that from an ownership perspective this firm was hardly a family firm since his family owned only 12.5% and only two family members worked in the firm. However, in his view, the family spirit inside this firm made it a family business.

> I always give the following caveat, I say, it's culturally a family business, because in terms of ownership, our family owns, my father owns about 12.5% of the company. He does not have multiple voting shares, so there is no control and the only two family members in the business out of 4,000 employees are my father and I. […] I like to define it as culturally a family spirit, focus on the long term, not trying to maximise financial returns at the expense of other important issues. In terms of what is a family business, other families are much larger owners, more family members in the business. (Company C1)

Technological controls were calibrated to a minimum. Instead of management control technologies, the president and CEO of Company C1 referred to his reliance on people, to the intimacy among employees, and the spirit of a family culture where everyone supports one another and provides honest feedback. A successfully managed firm meant for him preparing the next generation and passing the firm on to them. Again what was relevant for the president and CEO was people, much more than financial indicators.

> I think I will have succeeded if, when I am able to step back, there is a person who is ready to take over. Best measure of success. It's not in billions of dollars, it's not in balance sheets, and it's not in market share. I have done a good job if I can step backwards and there is somebody better than me to take over. That will be the best definition of success for me. (Company C1)

From these remarks, we take note of how he accentuates the affective side of the family firm. Intimacy, family spirit and openness are some of the chosen expressions by the interviewee to refer to the importance of the family system for running the firm. Pervasive management control technologies seem to have no place in the firm's way of conduct. Instead, forms of cultural control seem to transpire.

3.4.10. Calibrating minimal controls for nurturing a familial firm

Likewise, the CEO of Company J1 emphasized that he relied on people instead of technological controls, "I built around me a good team, that's probably the strength that I have developed over the years, is that I have some good people around me that I can rely on" (Company J1). Similarly, the president of the large manufacturing Company B1 reported to us that instead of using management control technologies, he used, "Passion, love and hard work. I always use all this. That's all I use, and my values" (Company B1). He stated valuing an affective and emotional relationship to the firm and his employees over formal calculative and procedural controls. With reference to the family identity of the firm, he emphasised a sense of belonging to the family, with technological controls being calibrated only to a minimum.

Following the people- and family-focus, instead of control, the founder and CEO of Company C3 noted that trust and the role of family in the business are critical.

> She [referring to the founder's sister] is the one running it [referring to a different branch of the business]. So I trust her with everything, because when it comes to family business

it's also, kind of, micro-managing the business, it has a lot of trust, and when there's a lot trust […] it makes a big difference. (Company C3)

We take the above delineated comments by our respondents, such as reliance on people, trust and passion and their description of an affective relationship to the firm and with employees as indicative of the interviewees' emphasis on nurturing a familial firm. To these interviewees, management control technologies, such as calculative and procedural controls, do not suit such a family-oriented understanding of the firm. Calibration of management control technologies remained minimal (i.e., limited to the financial accounting system), with interviewees reporting them to us as being absent. Instead, forms of cultural control were referred to by emphasizing trust, a people-focus, or family-like relationships within the firm. Based on the above-presented empirical insights, we now enter a discussion on how management control technologies were calibrated to fit the dual identity of family firms.

3.5. Discussion

3.5.1. Calibrating: Graduating controls for distinctive purposes with reference to firm identity

As discussed before, calibration involves essentially three activities: determining a graduation, adjusting the calibration for a particular purpose, and comparing it to a standard or reference for calibration. Interested in exploring how management control technologies are calibrated in family firms, the empirical insights show how the interviewed family firms calibrate management control technologies by graduating them for particular purposes with reference to the family-business identity of their firm. Table 2 below summarises the empirical insights.

Table 2: Calibrating technological controls in interviewed family firms

Graduation*	**Purpose**	**Reference**
Calibrating calculative controls	Business success and growth	Strengthen business identity
	Corporate functionality	Strengthen business identity
	De-emotionalising decision-making	Reduce family identity

Calibrating family-centric controls	Professionalising the firm	Strengthen business identity
	Reducing the harmful side of family involvement	Reduce family identity
Calibrating procedural controls	Overcoming affective decision-making	Reduce family identity
	Overcoming instinctive way of conduct	Reduce family identity
	Professionalising the firm	Strengthen business identity
	Relying more on non-family members	Strengthen business identity
Calibrating pragmatic controls	Achieving firm goals	Strengthen family identity
Calibrating minimal controls	Engendering intimacy	Strengthen family identity
	Engendering a people-focus	Strengthen family identity
	Nurturing a familial firm	Strengthen family identity

*Table 2 does not include the identified graduation "calibration of financial accounting controls" mentioned in the Discussion section. The reason is that this graduation represents a minimal calibration, which is required in any case. What is more relevant for us is how interviewees reflected on their perceived non-use of management control technologies, which led to the identification of the "pragmatic controls" and "minimal controls" graduations.

With respect to the activity "determining a graduation", we see different graduations of management control technologies in place. Interviewees refer to calculative controls - such as key performance indicators, dashboards with financial and non-financial indicators, or performance measurement systems - in our conversation about their use of management controls. Further companies highlight family-centric controls, which govern the family influence and stipulate rules for family succession in the firm. The procedural controls, such as formalised decision-making processes, job descriptions or structured organisational processes, that are mentioned by interviewees point to the need for changing the current modus operandi. Together, calibrated calculative, family-centric, and procedural controls represent a pervasive use of management control technologies. In comparison, other interviewees emphasised that they are not using management control technologies, although they tended to relativize their statement, either with a reference to the financial accounting system for bookkeeping and tax filings or with reference to pragmatic control principles. We summarize these types of calibration under the label of minimal[6] management control technologies.

Interviewees provided multiple reasons for calibrating technological controls. For example, calibrating calculative controls was a conversation about business success and growth, corporate functionality and de-emotionalising decision-making. The articulated purpose of calibrating family-centric controls centred on professionalising the firm and reducing the harmful side of family involvement, such self-serving behaviour or favouritism. Overcoming affective decision-making and an instinctive way of conduct as well as professionalising the firm were highlighted in the realms of calibrating procedural controls. In comparison, interviewees emphasised engendering intimacy and a people focus as well as nurturing a familial firm in cases of not or only minimally reverting to management control technologies. In both cases, the communality is their reference for calibration, which is their juxtaposition and reflection on their family-business identity of their family business.

Calibrating more pervasive control technologies inside the family firms, such as using calculative, family-centric or procedural controls is referred to as either strengthening the business identity or as reducing the family identity of their family business. The co-CEO of family firm V1, for example, referred to his plans to implement management control technologies as "putting some organisation and corporate feel to the company" (Company V1). The future use of management control technologies is related to "a corporate feel", delineating how management control technologies are used to strengthen the business identity of the firm. Similarly, the offered explanations to become more like a public firm indicate how management control technologies are related to the business identity of the firm. The use of management control technologies was referred to as assimilating to a public firm and to conceal the family

[6]Interviewees' narratives on the absence or minimal use of management control technologies allude to forms of cultural controls. Given the paper's focus on management control technologies, we focus the discussion on the comparison between pervasive and minimal management control technologies rather than between technological and cultural controls.

side of the business. Other interviewees explained their intensification of management control technologies by attempts to professionalise the firm, providing structures and stability, and by reducing the reliance on gut feeling, experience and instinct. These offered arguments for using management control technologies centred on an idealised state of a "professionally run firm". In light of the goal to become a professionally run firm, a familial way of conduct is regarded as limiting rather than enriching, since it becomes associated with a no longer viable manner of conduct that relies on gut feeling or "work […] by instinct, by experience" (Company A1). The trend towards placing more emphasis on a business identity is thus driven by the above-mentioned arguments in favour of intensifying the use of management control technologies, such as stabilising and professionalising the family firm or explicating that the current familial way of conduct, relying on gut feeling and instinct, is no longer satisfactory. These examples illustrate how the pervasive use of control technologies is related to accentuating and foregrounding the business identity of the family firm.

Furthermore, the use of management control technologies is also perceived as a means to reduce the detrimental side of familiness, such as emotional decision-making, entrenchment or kinship. For example, it is argued by some of our interviewees that "feuds and fights among family members would kill the business" or that "in a family context there's a bit of emotion involved in the decision-making process. In a non-family environment, it's not about emotion. It's all about strategy" (Company S2). The CEO of family firm S2 introduced management control technologies to reduce emotional decision-making, family members' self-serving behaviour (such as taking the produced food out of the shelves for their own consumption) as well as the degree of family involvement in the firm. As highlighted by the CEO of Company S2, nowadays family members working in the business have no more rights than non-family members. Management control technologies were used here to reduce the perceived harmful side of the family identity in the firm.

In comparison, our interviewees' narratives on the minimal use, or perceived absence, of management control technologies accentuate and foster family identity. Offered explanations for not using management control technologies, such as calculative or procedural controls, relate among others to the family culture and people focus in their firms. For example, the president and CEO of Company C1 commented on not using management control technologies, “In a family, the family members are able to tell each other, are you sure it’s the right thing? There’s an intimacy that is something you don’t see at other businesses” (Company C1). This intimacy of the family identity rendered it unnecessary to have management control technologies in place. Similarly, as mentioned earlier, the president of Company B1 reported to us that instead of using management control technologies, he uses “passion, love and hard work. I always use all this. That’s all I use, and my values.” (Company B1). He thus referred to family attributes such as passion and love instead of management control technologies. Mentioning the level of trust, the founder and CEO of Company C3 explained, “… she [referring to the founder’s sister] is the one running it [referring to a different branch of the business]. So I trust her with everything, because when it comes to family business it’s also, kind of, micro-managing the business, it has a lot of trust” (Company C3). In other words, not reverting to management control technologies was explained by intimacy, trust and a family-oriented firm environment that relied on people rather than calculative tools and formalised procedures. The family identity of their firm was in focus and the use of management control technologies was associated with hampering their family identity. The absence of management control technologies was perceived as a means with which to embrace familiness as a resource for the firm. In other words, the absence of management control technologies was seen as liberating (Choudhury, 1988), while a potential use of management control technologies was seen as detrimental for the family identity of the business - overruling the emphasised people-focus, intimacy, trust and familial firm environment. This emphasis on people, intimacy, trust, and familial firm environment alludes to forms of cultural control.

Overall, calibrating management control technologies in terms of calculative, family-centric and procedural controls was referred to as strengthening the business identity and reducing the negative side of familiness. Alternatively, the minimal use of management control technologies related to the pervasive family identity of the family business. Despite the dual control ambition of family firms, management control technologies became related in an unilateral way to the business identity of the firm. When present, management control technologies were perceived as fostering the business system and overcoming the perceived negative side of the family system, such as emotional decision-making or an instinctive way of conduct. In contrast, the absence of management control technologies was rationalised by the understanding that its use would hamper the family identity. Reliance on trust, people and a familial work environment were perceived as threatened if management control technologies were to be used.

Despite calling it a “delicate balance” (Interview V1) between family and business system, the perceived relationship between management control technologies and family-business identity was one-sided and anchored to the business system by strengthening the business identity and attenuating the family identity. Management control technologies were not perceived heterogeneously among interviewees, serving in some cases the family identity and in other cases the business identity. On the contrary, management control technologies were associated rather homogenously as carrying and intensifying the business identity of the family firm by, among other things, professionalising, de-emotionalising and structuring it. Despite the emphasis by all our interviewees of being family businesses with a dual identity, in the context of management control technologies the dual identity translated into a “business versus family” dichotomy in which the use of management control technologies moves the identity more towards business and thereby, at the same time, away from family. Thus, the use of management control technologies appears to be a choice of identity on a singular continuum between family and business: more business and thereby less family-like, or more family and thereby less business-like. For the advocates of using management control technologies, it became the epitome of running a corporation, expressed in utterances, such as “corporate feel”, “corporate functionality”, “and governance of a public firm”. For skeptics or non-adopters, the use of management control technologies is almost antithetic to their familial identity. Table 3 below summarises the perceived relationship between management control technologies and family-business identity of the family firms.

Table 3: Perceived relationship between management control technologies and family-business identity

	Pervasive management control technologies	**Minimal management control technologies**
Family identity	**Associations by**	**Associations by**

	interviewees: - De-emotionalise decision-making - Reduce harmful side of family involvement - Overcome affective decision-making - Overcome instinctive way of conduct **Perceived relationship:** -Management control technologies reduce the negative side of the family identity.	**interviewees:** - Engender intimacy - Engender a people-focus - Nurture a familial firm (trust, openness, and sense of belonging) **Perceived relationship:** - Management control technologies weaken the family identity.
Business identity	**Associations by interviewees:** - Facilitate business success and growth - Enable corporate functionality - Professionalise the firm **Perceived relationship:** - Management control technologies enhance the business identity.	

In terms of calibrating management control technologies, the dual identity becomes a dichotomous choice. It appears as a choice between fostering either the business identity or the family identity. By referring to this choice, the interviewees reveal their belief in the potency of management control technologies to affect their firm's identity. Interviewed firms perceive that control technologies have the power to change the firm's dual identity by strengthening economic rationality and reducing familial affectivity, to which we turn next.

3.5.2. Dual identity and management control

Extant literature on family firms embraces the dual identity of family firms as one where family and business systems interact as mutually constitutive identities and renders this organisational form as distinct from that of non-family firms (Ensley and Pearson, 2005; Habbershom and Williams, 1999; Habbershon *et al.*, 2003; Sundaramurthy and Kreiner, 2008; Zellweger *et al.*, 2010). While acknowledging different degrees of interaction between family and business systems offers an explanation of the heterogeneity among family firms (Chua *et al.*, 2012; Westhead and Howorth, 2007), the dual identity transpires as a duality - this is to say consisting of the two mutually constituting parts: family identity and business identity.

Our analysis delineates how family firms calibrate their management control technologies with reference to the family firm's dual identity. We show how the act of calibrating management control technologies emerges as graduating controls with reference to the family firm's dual identity. Strengthening the business identity or strengthening the family identity are some of the references made by the family firm's owner/manager when rationalising her or his pervasive or minimal use of management control technologies. The way owners/managers of family firms refer to their firm's dual identity is interesting insofar as it is indicative of how they have pulled apart the dual identity of their firm which they then juxtapose into a dichotomy. This dichotomy between family and business identity then seems to constitute a dualism, or a choice between two opposite ends. This is not to say that family firms do not regard themselves as a firm with a dual identity entailing a family and business side - quite the opposite. Rather, it means that in the context of calibrating management control technologies, a family firm's dual identity is referred to as a dichotomy. Its initially combined identity seems to be pulled apart and juxtaposed, creating the opposite ends of family versus business.

This observation is interesting in light of the dual - sometimes competing - control ambition of family firms. As discussed above, family firms face a dual control ambition of economic rationality and familial affectivity. In light of the socioemotional wealth perspective, the economic imperative is replaced by an affective imperative in case of competing control ambitions (Berrone *et al.*, 2012; Gómez-Mejía *et al.*, 2007; Gómez-Mejíaet *et al.*, 2010). Our analysis shows how family firms calibrate management control technologies neither in a way that embraces the dual control ambition nor in a way that prioritises per se affectivity over economic rationality. Instead, calibrating control technologies seems to become an act of dissolving the dual control ambition by converting the duality into a dichotomy. Family firms indeed revert to their dual identity. Statements, such as "I want the governance of a public firm while keeping the family spirit in the company" (Company S2) or "We still like the concept of a family business and what it brings to the table, but we're also looking at the corporate environment" (Company V1) illustrate how a family firm reverts to its dual identity. However, deciding on (not) using management control technologies is not an inclusive referencing of "both" family *and* business identity but rather an exclusive referencing of "or", in the sense of family versus business identity. It appears that their duality of business and family identity allows for (re)positioning their identity also in a dualistic manner as family versus business. "We are a business, not just family" or "This is not just business, it is also family" are some of the exclamations that describe the ability to switch from duality to dualism. Put simply, the two sides of the same coin can be easily brought into opposition. As expounded on by our interviewed owners/managers, the relationship between management control technologies and the firm's dual identity is perceived as a choice between one of two options: one, strengthening the business identity by using management control technologies, and two, strengthening the family identity by minimising the use of management control technologies. By delineating this choice, the interviewees expect that management control technologies alter their firm's identity. In what ways management control technologies are expected to affect their firm's identity is interesting in light of the discussed dual role of management controls.

Extant management control research highlights the dual role of control, describing it for example as positive/negative, coercive/enabling or constraining/enabling (Ahrens and Chapman, 2004; Mundy, 2010; Simons, 1995; Tessier and Otley, 2012; Wouters and Wilderom, 2008).

From our understanding, the dual role of control is that of balancing the two sides of controls as they complement each other in the pursuit of influencing behaviour and achieving organisational objectives. Exemplary of the idea of balancing and complementing controls is Simons' (1995) levers of control framework, in which he refers to positive/enabling controls (interactive and belief systems) and negative/constraining controls (diagnostic and boundary) as yin and yang.

In the context of family firms, a dual control ambition is characterised by the attempt to combine, or reconcile, economic rationality with familial affectivity. Instead of seeing an account of rendering management control technologies amenable to the dual control ambition of family firms, our analysis shows how management control technologies are homogenously related to one control ambition: economic rationality. Family firms seem to perceive management control technologies as a means through which they can foster economic rationality and thereby reduce familial affectivity. Management control technologies are not regarded as a practice that embraces duality. Instead, it is homogenised into a singular role, which is that of promoting economic rationality and reducing familial affectivity.

Overall, the interviewees from family firms explained the choice *not* to use management control technologies with reference to the family identity of the firm. They also saw the introduction of management control technologies as detrimental to the firm's family identity. The case study thereby provides an account of how the absence of management control technology is neither a "pathological non-presence" nor the "antithesis of presence", but a phenomenon with its own idiosyncratic ability (Choudhury, 1988; Catasús, 2008). As delineated by Choudhury (1988), absence carries the "ability" to unfold trust, constructive ambivalence, symbolic meaning and liberating forces. Not or minimally using management control technologies is rationalised by the family firms as staying true to the family side of the firm. "And this is where the family comes in" is how the co-CEO of Company V1, for example, explained such emotional decision-making. Emotions, familial work environment, reliance on people, trust and instinct were highlighted by family firms that made no or only minimal use of management control technologies. These family firms further compared a potential presence of management control technologies to a state without trust, respectively familial affectivity. Calibrating minimal, instead of pervasive management control technologies was perceived as protecting the family firm from an economic rationality that could change its identity. In comparison, the reliance on people, intimacy, trust, and a familial work environment suggests that forms of social controls were used.

As reported by Boedker and Chua (2013), management control or accounting more generally is commonly depicted as a technology of rationality and intelligibility. Their case study (Ibid.), in comparison, shows how accounting (re)produces affect, making the case of how rationality along with affect engender action in response to accounting inscriptions. Our case study unfolds how calibrating management control technologies becomes a question of identity - maybe in this very perception of the relationship between management control technology and the family firm's identity lies (part of) the affective side of management control that Boedker and Chua (2013) allude to. Both the absence and presence of management control technologies (re)produces affect. Through the act of calibrating presence, it (re)produces business identity. Calculative controls and procedural controls were praised to strengthen the business identity of the firm. The affective utterance would be "We are a business, not just family". In the form of its absence, it (re)produces family identity as reverting to management control technologies was perceived as weakening the family identity. "This is not just business, it is also family" would be an affective utterance for this. Future research might closer investigate whether it is the association of management control technology with economic rationality that engenders affectivity. Next, we turn to our concluding remarks.

3.6. Conclusion, limitations and future research

This paper contributes to the management control and family business literature in that it unfolds how management control technologies are calibrated in reference to the family firm's dual identity. The study shows, based on a set of family firms, the liberating force of minimally using management control technologies as well as the professionalising force of pervasively using management control technologies, such as calculative, family-centric, and procedural controls. The study further provides an attempt to illustrate the notion of calibration in order to unfold how management control technologies are made amendable to fit into the dual identity of family firms.

Our case study delineates how family firms calibrate their management control technologies with reference to the family firm's dual identity. Calibrating management control technologies transpires as graduating controls with reference to the family firm's dual identity. Strengthening the business identity or strengthening the family identity are some of the references made by the family firm's owner/manager when rationalising their pervasive or minimal use of management control technologies. The way family firms refer to their dual identity is interesting insofar as it is indicative of how they have separated their firm's identity into two parts which they then juxtapose, whereby the duality of the family and business identity becomes a dichotomy. In this dichotomy, pervasive use of management control technologies is unilaterally referred to the business identity of the firm.

Instead of seeing an account of how management control technologies are rendered amendable to the dual control ambition of family firms, our case study unfolds how management control technologies are homogenously related to one control ambition: economic rationality. Family firms seem to perceive management control technology as a means through which they can foster economic rationality and thereby reduce familial affectivity. Management control technology is not regarded as a practice embracing duality. Instead, it is homogenised into a singular role, which is promoting economic rationality and reducing familial affectivity.

Henceforth, this study suggests that family firms neither calibrate management control technologies in a way that embraces the dual control ambition - as we might expect from the dual role of controls discussed in management control literature (Mundy, 2010; Simons, 1995; Tessier and Otley, 2012) - nor that affectivity is per se prioritised over economic rationality - as a socioemotional wealth perspective would indicate (Berrone *et al.,* 2012; Gómez-Mejía *et al.,* 2007; Gómez-Mejía *et al.,* 2010). Instead, calibrating management control technologies seems to become an act of dissolving the dual control ambition by translating a duality into a dichotomy.

By unfolding how family firms calibrate management control technologies in light of the family firm identity, this paper provides new insights into how organizations attend to and go about dual - sometimes even conflicting - logics and responds to calls for more field-based research on the management control practices of family firms (Prencipe *et al.,* 2014; Salvato and Moores, 2010). As is common in qualitative research, the results are not intended to be generalizable at an empirical level. Instead, the evidence drawn from the 20 interviews held with family firms in Quebec, Canada, was used to develop a theoretical argument on how management control technologies are calibrated so as to reconcile with the family firm's dual identity. The interviewees view that management control technologies alter their firm's identity. In that sense, they demonstrate a strong belief in the potency of management control technologies to change the dual identity of their firms.

While this paper focuses on the management control technologies, future research could investigate how other forms of control, such as cultural controls are implicated in forming the family firm's dual identity. Our interviewees' explanations for not using management control technologies point towards the use of different forms of cultural controls. At the same time, we find it interesting that our interviewees did not explicitly incorporated these forms of control in their narratives on using management controls. This non-association represents, in our view, an interesting avenue for future research. Future research could expand on this by examining in more detail why informal, personal, social or clan controls might not be perceived as part of the family firm's management control package, and the implications thereof.

Chapter 4 - Family Firms Got Talent, at a Cost

Abstract

Existing research argues that family firms will potentially suffer from reduced access to the managerial talent pool because of motivation and compensation problems (Carney, 2005; Chua et al., 2009; Schulze et al., 2001). While measuring motivation may be difficult, the paper focuses on the compensation packages of the CEOs and TMTs of family firms. The purpose of this study is to investigate this proposed disadvantage in attracting and hiring highly qualified external executives, or the talent gap, by looking for trends in how family firms compensate their CEOs and TMTs.

This paper presents a rich clinical analysis of the composition of the BOD and the compensation packages of the CEOs and TMTs of five Canadian publicly traded family firms based in Quebec. Using both agency and behavioural theoretical perspectives, we identify some patterns in family firms' BOD formation and executive compensation practices. The data analysis highlights a connection between the degree of family ownership, the composition of the BOD, and the identity of the CEO. The analysis also shows that family firms rely more heavily on cash-based awards than on equity-based awards as a form of CEO and TMT compensation. Family firms are reluctant to use option-based rewards and the use of share-based awards is also kept at a minimum. Other evidence from the cases point towards a role that institutional ownership plays in restructuring the compensation packages of the TMTs at family firms. The observed trends in BOD formation, CEO assignment, and executive compensation practices all point to the existence of the talent gap at family firms hypothesized by existing research.

While focusing on a small number of firms creates an in-depth understanding of the phenomenon at study, it confines the generalizability of the results. Also, although the study takes many aspects of the case firms into consideration, it is impossible to ensure the exhaustiveness of the factors affecting the composition of the BOD, and the CEO and TMT compensation. Yet, these limitations do not prevent this study from contributing to the compensation and family firm literature by offering insights into their executive compensation practices. Identifying these trends can explain the gap between family firms and the pool of

highly qualified external executives and, eventually, can help bridge this talent gap, retain professional skilled managers and remain successful.

Keywords: Family Firms, Executive Compensation, CEO Compensation, Corporate Governance

4.1. Introduction

A special report on family firms published by The Economist (April 18th – 24th, 2015) reflects the increased importance the subject of family business governance currently has in both the professional and academic research worlds. The report argues that family companies are much more than "just half-formed public companies". Family firms are a category of companies in their own right, and have unique advantages in the form of long-term thinking, virtuous frugality, loyal staff and concentrated ownership providing patient capital. At the other hand, family firms also have unique disadvantages in the form of succession problems, family feuds, non-independent board and difficulty to compete for hiring top talent. This disadvantage family firms have in attracting highly qualified external nonfamily executives is referred to as the talent gap.

A family firm will potentially suffer from reduced access to the managerial talent pool because of motivation and compensation problems (Chua et al., 2009). The family firm's limited access to the external managerial talent pool has been proposed by other researchers (e.g. Carney, 2005; Schulze et al., 2001) based on the observation that family firms frequently reserve the CEO position for a family manager thus limiting the advancement of nonfamily managers (Chua et al., 2009). For executives below the CEO, the potential for promotion is an additional source of incentives (Guay et al., 2002). While measuring motivation may be difficult, we investigate the effect of this argument, the absence of the potential for promotion, on the compensation packages of the CEOs and TMTs of family firms where this source of incentive is absent. The purpose of this study is to investigate this proposed disadvantage in attracting and hiring highly qualified external executives, or the talent gap, and its effects on family firms' CEOs and top management teams' (TMT) compensation packages. Put differently, we look for trends in how family firms compensate their CEOs and TMTs. Identifying these trends in executive compensation can explain the gap between family firms and the pool of highly qualified external executives and, eventually, can help bridge this talent gap, retain professional skilled managers and remain successful.

Given that executive compensation is a strategic decision handled by the board of directors (BOD), we find it important to start our cases analysis from there. Accordingly, in this paper we present a rich analysis of the composition of the BOD and the compensation packages of the CEO and TMT of five Canadian publicly traded family firms. Although large sample studies allow for statistical generalization, our in-depth analysis uncovers important family firm contextual factors affecting the phenomenon under study.

Another motivation to study family firms' executive compensation springs from the practical importance of better understanding this business phenomenon which makes up much of the world's economy. According to the Family Firm Institute, family firms generate an estimated 70% to 90% of the annual global Gross Domestic Product (GDP) (Prencipe et al., 2014). Despite the significant importance of family firms to the local and global economies, it is only recently that management academic researchers have turned their attention to the family dimension as a determinant of business phenomena (Prencipe et al. 2014). Moreover, if we want to better understand how and why family firms do the things they do, we must consider the characteristics of their most powerful actors—their top executives (Hambrick, 2007). A focus on the characteristics of the top management team (TMT) will yield stronger explanations of organizational outcomes than will the customary focus on the CEO alone (Carpenter & Fredrickson, 2001). Surprisingly, the idea that the demographic characteristics of the executives themselves can influence their compensation packages has rarely been considered (Hambrick, 2007).

The opportunity to contribute to the young and growing field of accounting research in family business is another motivation behind this study. This potential growth in research is apparent in the increased number of publications (for example the Qualitative Research in Accounting and Management special issue on Family Business in 2017, the Journal of Management Control special issue on management control in family firms, The Economist special report on family business in 2015, and Family Business Review special issue on accounting research in family business in September 2010) where the authors have repeated their calls for more accounting research in family business. Bammens et al. (2011) quote Chrisman et al. (2006, p. 719) argument that family business research must clarify 'how and why behaviors might vary across different types of family business and between family business and non-family business'.

This article contributes to the literature an exhaustive analysis of both the composition of the BOD and the executive compensation practices at five Canadian publicly traded family firms. The paper provides a better grasp of the situation at family firms and identifies some patterns in family firms' BOD formation and executive compensation practices. Our data analysis highlights a connection between the degree of family ownership, the composition of the BOD, and the identity of the CEO. We also reveal a pattern in family firms' executive compensation. Our analysis shows that family firms rely more heavily on cash-based awards than on equity-based awards as a form of CEO and TMT compensation. Family firms are reluctant to use option-based rewards and the use of share-based awards is also kept at a minimum. This observed trend in executive compensation at family firms is contrary to the one at S&P companies where equity-based awards form the bigger part of executive compensation. Other evidence from our cases points towards a role that institutional ownership plays in restructuring the compensation packages of the TMTs at family firms. In conclusion, our observed trends in BOD formation, CEO assignment, and executive compensation practices point to the existence of the talent gap at family firms hypothesized by existing research.

Last but not least, this paper also partially answers the calls presented by Gomez-Mejia et al. (2001), Sirmon and Hitt (2003), Chua et al. (2009), Chrisman et al. (2009), Sur et al. (2013), and Prencipe et al. (2014) for more research on the effect of family firms' ownership and pursuit of noneconomic goals on their governance and on the compensation and retaining of family and nonfamily managers.

The rest of the paper proceeds as follows: The next section reviews the existing literature on family business and executive compensation relevant to our research. Then, the conceptual underpinning section lays the foundation for our data analysis. Third, we present our research methodology followed by a description of our case firms. The fifth section is an analysis of our firms' ownership structure, composition of the BOD, and the TMT. The sixth section is our analysis of the compensation packages of our case firms' executives. We follow that by a discussion of our research findings. The paper ends with our conclusion and research contributions.

4.2. Literature Review

4.2.1. Determinants of executive compensation

Despite decades of research, a definite conclusion on the determinants of the components of CEO compensation has not yet been reached (Sur et al., 2015). In a comprehensive survey of prior research, Murphy (1999) concluded that executive compensation practices vary with company size, industry, and country. However, he pointed out that the drivers behind the change in CEO pay levels are not yet documented. Frydman and Jenter (2010) review the more recent empirical research on CEO compensation published after the studies included in Murphy (1999). Their review suggests that both managerial power and competitive market forces are important, yet not the only, determinants of CEO pay (Frydman and Jenter, 2010). In another attempt, Graham et al., (2012) suggest that different levels of compensation could occur because of unobservable firm characteristics, such as corporate culture, or it could be due in part to unobserved personal characteristics of the executive. To find out whether unobservable firm and manager characteristics could explain a significant portion of the variation in executive compensation, Graham et al., (2012) run a regression in which they add firm fixed effects to account for unobservable differences across firms. Their results indicate that unobservable firm heterogeneity (such as firm quality, firm culture about compensation practice, etc.) has a significant effect on executive compensation (Graham et al., 2012). In a third regression, the authors add manager fixed effects instead of firm fixed effects; and in a fourth regression they add both firm and manager fixed effects (Graham et al., 2012). In both cases the results suggest that unobservable managerial traits (such as leadership styles, personalities, abilities, etc.) have substantial explanatory power in determining managerial compensation (Graham et al., 2012).

Table 1 below summarizes the findings of major executive compensation studies.

Table 1 – Executive compensation

Study	Findings
Demsetz and Lehn (1985)	Levels of managerial equity ownership are related to firm size and monitoring difficulty.
Smith and Watts (1992)	Positive association between firms' growth opportunities and CEOs' equity incentives.
May (1995)	Stock options are used to add convexity to compensation contracts.
Murphy (1999)	Executive compensation practices vary with company size, industry, and country.
	Drivers behind change in CEO pay levels are not yet documented.
Core and Guay (1999, 2001a)	Firms with cash constraints use stock options and restricted stock as a substitute for cash pay.
	Option grants are larger when it is costlier for firms to have low earnings.
Bryan, Hwang, and Lilien (2000)	The use of stock options is greater for firms with lower marginal tax rates.
Bebchuck, Fried, and Walker (2002)	Executive pay reflects managerial opportunism and power over boards; done in a way to mitigate external scrutiny and criticism.
Murphy (2002)	The percentage of stock options to total executive pay has increased because both companies and undiversified recipients perceive the cost/value of granting options way below their economic cost.
Murphy and Zabonjik (2004)	The level of CEO pay is determined by competition among firms and depends on the CEO's transferable skills across firms and industries.
Frydman and Jenter (2010)	Both managerial power and competitive market forces are important, yet not the only, determinants of CEO pay.
Graham et al., (2012)	Both firm and manager fixed effects have substantial explanatory power in determining managerial compensation.
Sur et al., (2015)	Study both composition and level of CEO compensation packages.
	Cash salary is mostly driven by firm-specific factors.
	Equity based compensation responds most to time-level effects.

The research evidence summarized in Table 1 above indicates that a significant part of the executive pay level is determined by managerial attributes that are not captured by the variables that financial researchers commonly include in their empirical analyses (Graham et al., 2012). Education and other personal characteristics such as age, gender and tenure explain a very small proportion of the variation in compensation fixed effects (Graham et al., 2012). The rest of the variation in the level and composition of executive compensation packages is still largely unexplained.

4.2.2. Equity-based compensation

With respect to equity-based compensation, and more specifically stock options, research shows that it has been the predominant component in incentive-based CEO compensation since the early 1980s (Fogarty et al., 2009). For example, stock options make up more than half of the compensation package of the executives of American publicly traded corporations (Hall and Murphy, 2002). A more recent study by Sur et al. (2015) further investigates the important differences in the composition as well as the level of CEO compensation packages. The researchers examine how firm-, industry-, and time-level effects drive CEO compensation in US corporations. Their results show that while cash salary is mostly driven by firm-specific factors, equity based compensation responds to time-level effects with firm- and industry-level effects playing only a marginal role (Sur et al., 2015). Reducing agency costs by inducing goal congruence between the principal and the agents is the main motivation behind this trend. Thus, it is argued that when the agent is enriched by the same indicator (stock price) that enriches all shareholders, we can achieve the desired goal alignment (Fogarty et al., 2009). In contrast, many researchers argue that excessive use of stock options may also be harmful to corporations (Bodie et al., 2003; Johnson, 2003). In the case of family firms, excessive use of stock options as a compensation tool may be particularly problematic because stock options create an incentive to take steps causing a quick increase in the company share price; something that is against the more common long-term vision and goals of family firms.

4.2.3. Family firm executive compensation

Research on the compensation packages of CEOs and TMTs of family firms is even more scarce and its findings are still widely dispersed. The setting of the family firm is interesting from an agency theory point of view because of the documented mismatch between the goals and interests of the owning family and family managers at one hand, and those of the nonfamily managers at the other. Nonfamily managers have different preferences, goals, and shorter term plans from those of the owning family (Chua et al., 2003; Dyer, 1989). For example, nonfamily managers who wish to increase their pay or move to better positions need to reflect improved business performance in short-term measures such as increases in operating efficiency, sales, or shareholder returns (Antia et al., 2010; Block, 2011; Campbell & Marino, 1994; Narayanan, 1985). However, the goals of the owners of the family firm are often long-term (Bertrand & Schoar, 2006; Block, 2011; Le Bretton-Miller & Miller, 2006) and may differ from those of nonfamily firms (Harris, Martinez, & Ward, 1994; Lee & Rugoff, 1996; Tagiuri & Davis, 1992). Accordingly, the compensation package of a nonfamily manager should be designed different from that of a family manager to align the interests of both parties. McConaughy (2000) and Gomez-Mejia et al. (2003) find that family CEOs receive less incentive based pay than do nonfamily CEOs working at family firms (Block, 2011). McConaughy (2000) labels this observation as the family incentive alignment hypothesis.

Asymmetric altruism may be another reason behind the difference between family managers and nonfamily managers pay (Chua et al., 2009). While holding managers' ability constant, family firms will pay family managers more than they pay nonfamily managers because: 1- the family owner will not want to underpay the family manager because that would lead to an overstatement of profit and overpayment to the nonfamily manager; and 2- compensation to the family manager costs less in expected utility terms to an altruistic family owner and, consequently, should shift upward (Chua et al., 2009). Block (2011) also analyzes the optimal compensation contracts of nonfamily managers employed by family firms using principal-agent analysis. On one hand, their model suggests that nonfamily managers' contracts should have low incentive levels in terms of short-term performance measures (Block, 2011). On the other hand, the author suggests that the contracts of family managers should include relatively greater incentives in terms of short-term performance measures (Block, 2011).

Existing studies are helpful in acknowledging the existence of the talent gap at family firms and identifying at least two reasons behind it. The first reason is the absence of the opportunity of a nonfamily manager to be promoted to a CEO position. The second reason is related to the value and composition of family firms' executive compensation. Guided by agency and behavioral theories and relying on the findings of prevailing corporate governance and executive compensation research, this study partially answers to research calls by Graham et al., (2012) and Sur et al., (2015) by highlighting patterns that help us better understand the determinants behind the composition of BODs, the identity of appointed CEOs, and TMT compensation at family firms.

4.3. Conceptual Underpinnings

Two major differences between family firms and nonfamily firms are the following: 1- family firms pursue noneconomic as well as economic goals (Chrisman et al., 2005; Lee & Rogoff, 1996); and 2- family firms wish to maintain control within the family past the current generation and thus have longer term plans (Chrisman et al., 2009; Miller and Breton Miller, 2006). Yet, family firms are not a homogeneous group of companies. This paper shows this heterogeneity by highlighting the different aggregated ownerships of the family firms we study. Namely, we aggregated the ownership and control of our sample family firms according to the following three groups: family, institutional, and public owners. None of our sample firms reports any significant corporate shareholders. Each type of ownership has differing priorities and may prefer different types of directors to fulfill their governance needs (Sur, Lvina, & Magnan, 2013). Anderson and Reeb (2004) provide some evidence of a relationship between a specific type of owner and their choice of director. Also, Sur, Lvina, and Magnan (2013) show that a firm's aggregated ownership ultimately determines its board's composition. Accordingly, as different types of owners have different governance and strategy objectives (Sur, Lvina & Magnan, 2013), we expect different ownership concentrations of family firms to result in different board compositions, different family CEO vs. nonfamily CEO appointments, and different executive teams' compensations. This relationship between a firm's ownership and its corporate governance is a comprehensive phenomenon that we believe needs a multi-theoretical perspective to understand (Sur, Lvina, & Magnan, 2013).

On one hand, a behavioral perspective (Argote & Greve, 2007) best describes the aspirations of the family owners of family firms. These owners seek to generate commitment to and continuity of their family/founder's ideology (Miller & Le Breton-Miller, 2005), thus ensuring a firm's long-term survival (Thomsen & Pedersen, 2000). As a result, we see that governance mechanisms applied by family firms are mainly within the lines of resource-providing functionality (Daily, McDougall, Covin, & Dalton, 2002) with a focus on control (Lane, Astrachan, Keyt, & McMillan, 2006). Family owners remain closely involved in managing the firm (Miller & Le Breton-Miller, 2005) and therefore have little use for the additional monitoring functionality from external board members. Accordingly, family firms utilize their ownership concentration to maintain control and protect their ideology and family influenced objectives (Sur, Lvina, & Magnan, 2013). To do so, family firms choose insiders, i.e., either family members and/or long-term employees, to be on the board to ensure the family can maintain a high level of control (Sur, Lvina, & Magnan, 2013).

On the other hand, agency theory is better suited to understand the objectives of institutional owners of family firms. Agency theory highlights the risk that organizational decision-makers engage in opportunistic behaviors which maximize their own personal interests at the expense of others and expend insufficient effort towards achieving agreed-upon firm objectives (Jensen & Meckling, 1976). Institutional owners prefer board functionality of mitigating "principal-agent" issues by means of agency theory-prescribed "alignment and monitoring" structures that include monitoring top executives (Boyd, 1994), and evaluating and rewarding top executives (Conyon & Peck, 1998). Accordingly, we expect the board to have more independent directors in the presence of powerful institutional owners than in their absence.

While most corporate governance literature based on the agency theory focus on individual economic utility maximization as the main driver of human behavior, applications of agency theory in family business research emphasize the family interests and consider both economic and non-economic motives for behavior. One of the most important noneconomic motives or goals of family business owners is their need to pass on their legacy to their heirs.

While trying to preserve family ownership and control, family businesses run the risk of what is recognized as an important potential source of agency problems within family businesses and is identified as asymmetric altruism between the older generation and the younger generation in favor of the latter (Schulze et al., 2003; Chua et al., 2009). Examples of decisions based on parental altruism include the setting up of a separate department/plant for each child, having one of the children fill the position of CEO regardless of their abilities, rewarding all employed children equally, regardless of effort and performance, and lavishing them with excessive perquisites and privileges (Lubatkin et al. 2005; Schulze et al. 2001). Karra et al., (2006) show that asymmetric altruism may also lead to problems of adverse selection in managerial recruitment.

These findings are supported by other existing research which shows that, owing to nepotism, noneconomic goals can have a substantial effect on the ability of family businesses to attract, obtain, retain, and develop high quality nonfamily members' human capital (Anderson and Reeb 2004; Carney 2005; Chrisman et al., 2009; Sirmon and Hitt 2003). For example, if preserving control within the family for future generations (Chrisman et al., 2009) and/or keeping the family happy through maintaining close family ties (Sharma, 2004) are priority noneconomic goals, it may be in the long-term strategic interest of the family business to "invest in the development of family members' managerial capabilities (Cabrera-Suarez et al., 2001; Sirmon & Hitt, 2003)" (Chrisman et al., 2009, p. 21), even if they are underperformers (Sharma, 2004). In order to make up for family members' preferred treatment, the business will provide a just work environment for nonfamily employees (Barnett & Kellermanns, 2006; Chrisman et al., 2009). If not, then the family business might fall into "scapegoating" (Gomez-Mejia et al., 2001), unjust compensation and performance evaluation (Chua et al., 2009), and nepotism (Sharma et al., 1997)" (Chrisman et al., 2009, p. 21).

With respect to the composition of compensation packages, agency theory suggests that compensation packages must have two components to be able to extract optimal effort from managers and mitigate the adverse selection problem (Fama, 1980; Fogarty et al., 2009; Gibbons and Murphy, 1992): fixed pay plus a profit-sharing and/or an ownership sharing plan (Chua et al., 2009). In the case of family firms where trans-generational ownership and control is a common main goal, there would be an expected reluctance to share ownership with the nonfamily manager (Gersick et al., 1997; Chua et al., 2009). Because of the family firm owners' reluctance to share ownership, the family firm is more likely to base the nonfamily manager's performance pay on short-term profit rather than ownership, as shown in the empirical evidence presented by Chrisman et al. (2007). Table 2 below summarizes our assessment of the governance and compensation preferences associated with institutional and family owners of family firms.

Table 2 – Ownership, governance, and compensation

	Institution Owner	**Family Owner**
Risk of concern	Market-specific	Ideology-specific
Theoretical perspective	Agency	Agency & Behavioral
Primary governance function	Mitigating agency	Resource providing
Board function	Monitoring	Service
Choice of director	Independent	Family / Insider
Choice of compensation	Cash- & Equity-based	Cash-based

4.4 Research method

This paper investigates the hypothesized talent gap through a detailed clinical analysis of five publicly traded Canadian family firms. We obtain our data from the public firms' most recent management information circulars and audited financial statements published on their websites and on www.sedar.com. First, we provide a general description of the companies in terms of their respective size, performance, and industry they operate in. Second, we describe the firms' ownership structures, composition of the board of directors, and the TMT. Since, as outlined above, the objectives and interests of all large shareholders may affect the setting of the firm's objectives and governance, we aggregate the identities of all large shareholders to define the overall ownership for each one of our sample firms (Miller, 1987, Sur, Lvina, & Magnan, 2013).

As our conceptualization of ownership is an aggregation of all the different types of owners as well as their percentage of shareholding and vote controlling within each firm (Sur et al., 2013), we comment on any observed relationship between the ownership structure of the sample firms and the composition of their respective BOD and TMT. Third, we examine the compensation packages of family and nonfamily executives who are active on the same executive team of the same firm and have similar firm goals and responsibilities. Then, we compare the executives' compensation packages across our sample firms. Our aim is to identify common patterns in family firm board of directors' formation and executive compensation practices. Finally, guided by agency and behavioral theories, we try to give meaningful explanations to the identified patterns in the formation of the BODs, the identity of appointed CEOs, and the composition and total value of the compensation packages of the CEOs and TMTs of our sample firms.

4.5. The case firms

We chose five prominent family firms to be our case studies for this research paper. Our cases selection aimed to ensure maximum variation in terms of industry, company size, performance, ownership structure, and the composition of the board of directors and the top management team. We also made sure that none of the founders is the current CEO of any of our case family firms. All our case firms are second generation or later family firms that had to make the decision about whom to succeed the founder in the position of the CEO at least once. We also aimed to make sure that all our sample firms are based and headquartered in Montreal, Canada and accordingly share the same legislative and organizational context and requirements. Moreover, we ensured that the quantity of information disclosed by the family firms is significant to investigate the information rich cases (Patton, 2002). Namely, the case firms selected for analysis in this study are Bombardier, CANAM, Jean Coutu Group, Saputo, and Transcontinental hereafter interchangeably referred to by their tickers on the Toronto Stock Exchange (TSX) as BBD, CAM, PJC, SAP, and TCL respectively.

4.5.1. Bombardier

Bombardier (BBD) is a world leading manufacturer of airplanes and trains. Their products line includes business jets, commercial aircrafts, speed trains, and public transit trains.

The company is based in Montreal, Quebec, Canada, and employs around 66,000 employees. For the fiscal year ended December 31, 2016, Bombardier reported revenues of $16.3 billion. Bombardier closed the 2016 fiscal year with a net loss of $981 million or $0.48 per share, compared to a net loss of $5,340 million or $2.58 per share in 2015. As at December 31, 2016, equity deficit stood at $3,489 million and net debt was $26,315 million, compared to an equity deficit of $4,054 million and net debt of $26,957 million at the end of 2015. The Bombardier family owns an aggregate of 12.5% of all shares issued and outstanding. This ownership is enough to give the Bombardier family control over 53.23% of voting rights attached to all the shares of the corporation, reflecting a big gap between the family's ownership and control over the firm. In 2016, after a serious financial crisis that put the future of the giant company in jeopardy, BBD has successfully attracted significant Caisse de Dépôt et de Placement du Québec (CDPQ) and Government of Quebec equity investments. Although significant, these investments do not amount to ownership or control of 10% or more of the voting rights attached to any class of BBD issued and outstanding voting shares.

4.5.2. CANAM Group

CANAM Group (CAM) is the largest fabricator of steel components in North America. The company specializes in designing integrated solutions and fabricating customized products for the North American construction industry. CANAM operates in three groups of products and services: building construction, structural steel construction and bridge construction. The Corporation operates 23 plants across North America and employs over 4,650 people in Canada, the United States, Romania and India, and has reported revenues of $1.8 billion for the year ended December 31, 2016. CAM closed the 2016 fiscal year with a net loss attributable to shareholders of $13.3 million or $0.28 per share, compared to a net income of $46.8 million or $1.09 per share in 2015. As at December 31, 2016, equity stood at $562.3 million and net debt was $296.1 million, for a net debt to equity ratio of 0.53, compared to 0.32 at the end of 2015. The founder Mr. Marcel Dutil holds a total of 11.46% of the issued and outstanding common shares. Two main institutional investors the Fonds de Solidarité des Travailleurs du Québec (FSTQ) and the CDPQ respectively hold 10.20% and 5.09% of the issued and outstanding shares. The Canadian Depository for Securities Limited, the nominee security holder of record for many Canadian brokerage firms, holds the voting rights for 87.88% of the shares. Since CANAM reported a loss in 2016, the TMT did not receive any bonuses nor awards for the year. Accordingly, we decided to report on the company's TMT compensation for the year 2015. The BOD and TMT composition did not change.

4.5.3. Jean Coutu Group

Jean Coutu Group (PJC) is a Canadian pharmacy retailing company. PJC operates a network of 419 franchised stores in Québec, New Brunswick and Ontario, employs more than 20,000 people, and had reported revenues of $2.9 billion for the fiscal year ended March 04, 2017. PJC net profit for fiscal year 2016 amounted to $213.7 million ($1.08 per share) compared to $218.9 million ($1.17 per share) for fiscal year 2015. The company reports no long-term debts and has typically financed capital expenditures and working capital requirements through cash flows from operating activities. Mr. Jean Coutu holds 5.02% of Class A shares and 100% of Class B shares which, in total, are 58.54% of all shares issued and outstanding and represent 93.17% of the voting rights attached to all voting shares. PJC also represents a case where the gap between family ownership and family control over the firm is very big.

4.5.4. Saputo

Saputo (SAP) produces, markets, and distributes a wide array of dairy products including cheese, fluid milk, extended shelf-life milk and cream products, cultured products and dairy ingredients. Saputo is one of the top ten dairy processors in the world and the largest cheese manufacturer and the leading fluid milk and cream processor in Canada. SAP employs over 12,800 employees and has reported revenues of $11.2 billion for the fiscal year ended March 31, 2017. SPT has reported net earnings of $601.4 million ($1.53 per share) for fiscal year 2016, slightly less than the $612.9 million ($1.55 per share) for fiscal year 2015. SAP equity grew to $4,069.8 million in 2016 from 3,628.6 million in 2015 and the debt to equity ratio fell to 0.36 in 2016 from 0.46 in 2015. The company has one class of voting common shares, and the Saputo family holds 44% of the total number of shares issued and outstanding.

4.5.5. Transcontinental

Transcontinental (TCL) is Canada's largest printer with operations in print, flexible packaging, publishing, and digital media. The company has a large portfolio of marketing activation services, covering everything from mass communications to one-to-one relationship marketing. Transcontinental is based in Montreal, Quebec, Canada, employs around 8,000 employees, and had reported revenues of $2 billion in 2016. TCL net earnings for 2016 amounted to $146.3 million ($1.89 per share) down from $262.6 million ($3.36 per share) in 2015. The company's equity grew to $1,068.7 million in 2016 from $1,016.3 million in 2015 and its debt to equity ratio fell to 0.31 in 2016 from 0.34 in 2015. Transcontinental has two classes of shares; each Class A share carries one vote and each Class B share carries 20 votes. The Marcoux family holds 16.24% of all shares issued and outstanding which represent 73% of the voting rights attached to all outstanding shares of the corporation. The gap between the Marcoux family's ownership vs. control over TCL is the biggest among our case firms in this study. Mackenzie Financial Corporation holds 10.72% of Class A shares and 3.66% of Class B shares which represent around 5% of the voting rights attached to all outstanding shares of Transcontinental. The public owns 74.32% of all shares and controls only 22.03% of the votes attached to all shares issued and outstanding. Table 3 below informs on the industry, size, and general performance of our sample firms.

Table 3 – Industry, size, and performance

Firm Name	Bombardier	CANAM	Jean Coutu Group	Saputo	Transcontinental
Industry	Aeronautics	Steel Fabrication	Drug Retailing	Dairy	Media
No. of Employees	66,000	4,650	20,000	12,800	8,000
Assets ($M) 2016	22,826	1,273	1,524	7,597	2,062
Sales ($M) 2016	16,300	1,856	2,977	11,163	2,000
EBITDA ($M) 2016	183	19	311	1,290	416
EPS ($)	(0.48)	(0.28)	1.08	1.86	1.89
ROI	(23.73)	(1.63)	17.12	13.19	10.52

The following section introduces different relationships between family ownership, the structure of the BOD and the TMT, more specifically the identity of the CEO. The later section introduces different patterns in family firms' executive compensation. All relationships and patterns emerged from our case firms' data analysis. Each relationship and pattern is based on supporting evidence and interpreted considering multiple theoretical perspectives.

4.6. Ownership structure, BOD, and TMT

Agency theory denotes that companies are at risk that their decision makers engage in self-serving behavior that is not in line with the interests of the investors. Thus, principals need to monitor the agents' actions to make sure that they serve the interests of the shareholders. In widely held public firms, the principal is removed from the opportunity to directly observe the agent, and unity of interests between the principal and the agent does not exist (Fogarty et al., 2009). In the family firm setting, ownership is usually more concentrated in the hands of one or few founding families and majority shareholders. Accordingly, we see the ownership structure playing a major role in ensuring that the principal is present on the BOD and in the TMT, thus exerting direct monitoring over the agents. Alternatively, concentrated ownership, the presence of family members on the BOD and in the TMT, present another kind of agency risk where the majority shareholders' interests and actions may not be in line with those of the minority shareholders. This type of agency cost is usually manifested in a form of nepotism which is one of the causes of the proposed gap between the pool of family executives and the larger pool of external executives.

As a potential mitigation for this problem, institutional ownership has been found to lessen the agency problem between investors and managers. Researchers have based this argument on the idea that institutional investors have direct access to the TMT and can influence their institutional decisions (Fogarty et al., 2009). Accordingly, we find it important to report on the level of institutional ownership of our sample family firms because some types of large institutional investors exert influence over decisions related to corporate governance and affect operational decisions such as executive compensation (Hartzell and Starks, 2003; Fogarty et al., 2009). Bushee (2001) provides a typology on institutional investors. Through it we learn that unlike “transient” institutional investors who seek short-term profits through a strategy of quick shares trading, “dedicated” institutional investors provide market stability through their tendency to “buy and hold”.

In this section, we report on the family, institutional, and public ownership of our sample family firms. We also report on the composition of the BOD and the TMT of each of our case firms. Jean Coutu Group has two classes of shares. Each Class A share has the right to one vote and each Class B share has the right to ten votes. The founder, Mr. Jean Coutu, owns 4,025,960 out of the 80,183,204 Class A shares (%5.02 of Class A shares) and all 103,500,000 (100%) of Class B shares. Thus, Mr. Jean Coutu owns 58.54% of all shares issued and outstanding while he controls 93.17% of voting rights attached to all voting shares. PJC has the highest concentration of family control and the lowest percentage of public control over voting rights in our sample of family firms. PJC has neither reported significant institutional ownership nor any long-term external debt. The composition of the BOD and the TMT of PJC reflect the high level of family ownership of the firm. PJC has five family members out the 13 sitting on the board and another four family members as executives out of the 21 managing the firm. The founder, Mr. Jean Coutu continues to serve as the Chairman of the board of directors. PJC has always had a family CEO. The President and CEO position is filled by the son of the founder while the other son and two daughters also serve as directors on the board. Most of the independent directors serve on other companies’ boards. Three of the independent directors have been sitting on the BOD of PJC since decades while other three are relatively new joiners since 2010, 2012, and 2014. Two new directors joined the board in 2016 who have a professional background in finance. We notice that six of the eight independent directors are over 50 years of age and four of them are around the founder’s age, above 70 years old. The average age of the directors and their longtime standing relationship with the Coutu family point towards a more advisory role of the BOD to the family owners/managers of PJC.

Transcontinental also has two classes of shares. Each Class A share has the right to one vote while each Class B share has the right to 20 votes. The Marcoux family owns 16.24% of the total shares issued and outstanding while they control 73.01% of the votes attached to all shares issued and outstanding. TCL ranks first in our sample family firms with the highest gap between the Marcoux family ownership and the voting rights attached to the TCL shares they own. The public owns 74.32% of TCL shares while control only 22.03% of the votes. Mackenzie Financial Corporation, as a portfolio manager, holds 10.72% of Class A shares and 3.66% of Class B shares which represent in total around 9.44% of all shares and control only 4.96% of all voting rights attached to all issued and outstanding shares of Transcontinental. The high concentration of the Marcoux's family control over TCL shares voting rights is reflected in the composition of both the company's BOD and TMT. The company's BOD has five family members and eight independent directors. The founder of TCL is still involved in the company as one of its directors. The Chair of the BOD is one of the founder's daughters while the President and CEO position is filled by her husband. TCL has always had a family CEO and is an example of a family firm where the family extends to include the in-laws. The other daughter of the founder is also a current director of TCL. The son of the founder is also an executive director who fills the position of Senior Vice President of TC Media. The independent directors of TCL are all seasoned bankers, financial experts, and accountants with a long experience in the manufacturing industry. Their ages range between 54 and 68 years. Most of them sit on other boards such as those of banks, financial institutions and manufacturing companies. Three out of the eight independent directors have been serving on the board for more than ten years.

Bombardier has two classes of shares. Each Class A share carries the right to ten votes and each Class B share has the right to one vote only. Class A shares make up 61.89% of all voting rights of all Bombardier shares issued and outstanding while all Class B shares carry the remaining 38.11% of the voting rights. The Bombardier family owns 85.01% of Class A shares and only 1.61% of Class B shares. In total, the Bombardier family owns 12.5% of all shares issued and outstanding yet, controls a majority of 53.23% of all the voting rights attached to all the company's issued and outstanding voting shares. BBD is yet another example showing the big wedge between family ownership and family control over company votes where the difference is always in favor of the family over all other shareholders. The remaining shares and their corresponding 46.77% of voting rights are owned by the public alongside the CDPQ and the Government of Quebec. Although significant, none of the institutional owners owns or exercises control over 10% or more of the voting rights attached to any class of its issued and outstanding voting shares.

The control of the majority of votes in the hands of the founding family is reflected in the composition of its BOD. Accordingly, we see that six of the 15 directors sitting on the BOD are not independent directors with five members who are related to the founding Bombardier family. Mr. Laurent Beaudoin Chairman Emeritus of the Board of Directors who also served as the President and CEO of BBD from 1966 till 2005. His son, Mr. Pierre Beaudoin took over the position of President and CEO from 2008 till 2015. Since its inception and until 2015 BBD has had a family member in the position of President and CEO. But, after a rough patch in its performance that lead to a major financial crisis, BBD has witnessed a change in the CEO position in February of 2015. The current CEO is a nonfamily member who was appointed days after BBD announced its plan to seek its shareholders' permission to issue up to $2.5 billion in debt and new shares to bolster its cash reserves. This cash generating plan was crucial to secure the critical de-risking phase of Bombardier.

Mr. Alain Bellemare is the current President and Chief Executive Officer of Bombardier since February 13, 2015. Prior to joining Bombardier, he was President and Chief Executive Officer of UTC Propulsion & Aerospace Systems (supplier of aerospace and defense products), a position he held from July 2012 to January 15, 2015. All of BBD's independent directors serve on the boards of other prominent companies and their ages range between 52 and 72 years and most of them are well in their 60s. All of them have held top positions in their respective careers such as the Auditor General of Canada, Professor, and Presidents and CEOs. Their professional backgrounds are relevant to BBD and their expertise are in steel and aluminum manufacturing, aviation, finance, and economics. It is important to note that seven of these nonfamily directors have joined the BBD board since less than 5 years and five of them were just elected to the board in the past two years. We believe that this influx of new independent directors joining the board also reflects the effect of the institutional and government ownership and strong involvement in Bombardier after the company's financial crisis.

In the case of Saputo, the founder owns 34% of the total shares issued and outstanding while another family member owns 10% and the remaining 56% are owned by the public. SAP has only one class of common shares and accordingly the Saputo family's voting power is equal to their ownership in the family firm. The company does not report about any significant institutional owners. Yet, Saputo reports a significantly high amount of short-term and long-term debts compared to our other family case firms. Saputo has a relatively small board of directors that is made of only 10 members. Mr. Emanuel (Lino) Saputo is the Chairman of the board of the company. On February 02, 2017, he announced that he does not intend to renew his mandate. The board has nominated an insider, the Chief Financial Officer and Secretary of Saputo, to fill in the tenth seat on the board. Mr. Lino Saputo, Jr. is the current CEO and Vice Chairman of the BOD and the only other family member on the board. Since its inception, Saputo has always had a family CEO. The other eight board members are all independent, mostly have a finance and banking background, and serve on the boards of other companies. SAP's board of directors is relatively the youngest among our sample of family firms. The directors' ages range between 50 and 63 years.

CANAM comes last in our sample firms with only 11.46% of family ownership of the company's common shares. The company has only one class of common shares and accordingly the family's control over votes mirrors their ownership of CANAM's common shares. CAM reports the highest concentration of institutional voting rights. The Canadian Depository for Securities Limited, the nominee security holder of record for many Canadian brokerage firms, holds the voting rights for 88.54% of the company common shares. Here too, the reduced percentage of family ownership and control is reflected in the diminished number of family directors on the board. The BOD is constituted of three family members and eight independent members. The founder of the company serves as the Chairman of the Board. The founder's daughter is a director on the BOD and his son took over the position of President and CEO in 2012 after him. The independent directors' ages range between 48 and 74 years. Two of the eight independent directors have recently joined the board in 2015 and 2016. The other six independent directors have served on the board for many years and the lead independent director has had a relationship with CANAM since 1990. They all serve on several other boards and have different professional backgrounds. Two directors are CPAs, another two are lawyers, and another two have been top executives of other industrial manufacturing companies. The CAM board also has a university professor in entrepreneurship and an athlete who is also a Senator in the Parliament of Canada.

Table 4 below summarizes the ownership and control structures of our sample family firms. It also reflects the variation in our sample in terms of the differences in the firms' ownership and control concentrations.

Table 4 – Ownership and control structures

Firm Name	Shares Class	Ownership			Voting Rights		
		Family	Institutional	Public	Family	Institutional	Public
BBD	Class A (10 Votes)	85.01%	14.99%				
	Class B (1 Vote)	1.61%	98.39%				
	Total	12.50%	87.50%		53.23%	46.77%	
CAM	Common Shares	11.46%	88.54%		11.46%	88.54%	
PJC	Class A (1 Vote)	5.02%	0%	94.98%			
	Class B (10 Votes)	100%	0%	0%			
	Total	58.54%	0%	41.46%	93.17%	6.83%	
SAP	Common Shares	44%	0%	56%	44%	0%	56%
TCL	Class A (1 Vote)	0.003%	10.72%	89.28%			
	Class B (20 Votes)	89.47%	3.66%	6.87%			
	Total	16.24%	9.44%	74.32%	73.01%	4.96%	22.03%

It is important to note that all our sample family firms have completely independent audit committees and human resources and compensation committees. Table 5 below summarizes the composition of the BOD and TMT of our case firms.

Table 5 – BOD and TMT

Firm Name	BOD	CEO	TMT

	Family	Linked	Independent		Family	Nonfamily
Bombardier	5	1	9	Nonfamily	1	5
CANAM*	3	-	8	Family	3	17
Jean Coutu Group	5	-	8	Family	1	4
Saputo*	2	-	8	Family	1	6
Transcontinental	5	-	8	Family	1	4

The information we present above uncovers a pattern where the high concentration of family ownership and control is reflected in a high number of family members sitting on the BOD. This pattern is very clear in the cases of BBD, PJC and TCL. In the cases of CANAM and Saputo, where we have a relatively low level of family ownership, and high level of public and institutional ownership, we see the number of family members on the board drop to three and two members respectively. Moreover, we observe that family firms usually like to reserve the position of the CEO for a family member. Since their inception, our sample of family firms have mostly kept the CEO position filled by a family member. Four out of the five family firms in our sample currently have a family CEO. Bombardier is the only family firm in our sample that has recently appointed a nonfamily CEO following facing a serious financial crisis. It is also the only firm with negative equity and high level of external debt coming from powerful external creditors, in this case the Government of Quebec and CDPQ. All the other family firms have maintained a low debt to equity ratio and a family member in the CEO position.

Three out of our five family case firms show a huge gap between family ownership and family control. We see that family firms maintain control over most votes which help them keep the highest number of family members on the BOD and subsequently hire a family member as the family firm CEO.

Our data analysis uncovers another pattern for the BOD of family firms. This pattern is related to the independent directors. Mostly, our sample of family firms have independent directors who are of a relatively old age, an age that is comparable to that of the firms'

* Management Proxy Circulars of Saputo and CANAM provide identity information on more than just the top 5 executives. But, they provide executive compensation information for the top 5 executives only.

founders/chairmen of the boards, and who have served on the board for many years. Also, we notice that all the independent directors serve on multiple other boards. The relatively old age, the longtime standing relationship with the family firms and their owners, and the wide range of other responsibilities that come with serving on multiple boards give the impression that only an advisory role to the family owners/managers is played by these independent directors and not a supervisory role to management as it is the case at nonfamily firms.

4.7. Executive compensation

In this section, we analyze the compensation packages of the CEOs separate from the compensation packages of the TMTs of the family firms under study. We report on the five main components that make up all executive compensation packages. First, executives receive a base salary which is benchmarked by each family firm against the compensation of a comparator group of executives. Second, executives are eligible for an annual bonus plan which is based on accounting performance measures and is usually capped to a multiple of the executives' base salary. Third, executives receive stock options-based awards which give them the right to purchase shares in the future at a pre-set price. We label these rewards as "option-based awards". Fourth, executives receive restricted share units, performance share units, and deferred share units as part of a plan to retain and reward key employees of the corporation. We combine these compensation components and report them under the table heading "share-based awards". Lastly, executive compensation also includes other forms of compensation such as long-term incentive plans, pension plans, and benefits and perquisites; we report on the total of these under "other" compensation.

In tables 7 to 11 below we report on total compensation which is the sum of salary, bonus, total grant-date value of restricted stock granted, total grant-date value of stock options granted (valued using Black-Scholes model), and total of all other benefits paid by the firm to the executive (long-term incentive plans payouts, perquisites, contributions to retirement and benefit plans, etc.). Stock options are defined as the Black-Scholes value of exercisable and non-exercisable options granted to the CEO and TMT. The compensation packages of the CEO and TMT at every family firm is analyzed by composition and total value. Then, this information is compared across companies to identify any potential differences and similarities in the composition and total value of the CEOs and TMTs compensation packages. This approach aims at creating sense making through the development of patterns (Langley, 1999), in this case within family firms' CEOs and TMTs compensation packages. We also compare our sample firms' TMT compensation packages to the S&P CEO average pay mix. The most recent Equilar's "CEO Pay Strategies 2015" report compiles data from proxy filings for the S&P 1500 companies for the fiscal year 2014. The median CEO pay for the S&P 1500 group of companies amounted to $5.3 million in 2014. The same report shows that the cash component (salary plus yearly bonus) makes up around 43% of the average S&P 1500 CEO yearly compensation, while equity based compensation makes up 53% of annual compensation. Table 6 below shows the CEO average pay mix for the S&P group of companies:

Table 6 – S&P CEO average pay mix in 2014

Group	Base Salary	Annual Bonus	Option-based Awards	Share-based Awards	Other
S&P 500	13%	23%	17%	43%	3%
S&P 400	18%	24%	12%	42%	3%
S&P 600	28%	23%	10%	35%	4%
S&P 1500	20%	23%	13%	40%	3%

Source: Equilar 2015 CEO Pay Strategies

With respect to our case family firms, we start our analysis with Bombardier which is the only firm in our sample with an externally hired nonfamily CEO. In terms of composition, the CEO's compensation is comparable to the other Bombardier executive team members' and is close to the average S&P 500 CEO's compensation. The CEO gets 36% of his yearly compensation in cash (plus 9% in "other" compensation which is mostly cash) and 55% in equity-based compensation. In terms of total value, the CEO gets paid more than double of what any other executive gets paid. This is also in line with the average CEO vs. other executives' compensation. On average, non-CEO executives earn approximately 40% of the CEO's compensation (Conyon, 2006). The composition of the compensation packages of the TMT at Bombardier is comparable for all executives on the team. Base salary makes up between 13%

and 16% of total compensation. Annual cash bonus makes up between 19% and 22% of annual compensation (plus 7% to 17% in other compensation). Each of option-based awards and share-based awards range between 25% and 29% of total yearly compensation. So, the aggregate cash component (including other compensation) makes up between 42% and 51% of total annual executive compensation while the equity component makes up between 49% and 58% of total annual executive compensation. Table 7 below shows the annual compensation information for each of the executives at Bombardier for the completed financial year 2016.

Table 7 – Executive compensation – Bombardier

Executive	Family/ Nonfamily	Base Salary		Annual Bonus		Option-Based Awards		Share-Based Awards		Other		Total Compensation
		$	%	$	%	$	%	$	%	$	%	
Chairman	Family	754,900	14%	943,600	18%	1,545,000	29%	1,545,000	29%	463,000	9%	5,251,500
President & CEO	Nonfamily	1,042,200	11%	2,360,900	25%	2,618,800	28%	2,618,800	28%	848,700	9%	9,489,400
Senior VP & CFO	Nonfamily	503,500	13%	900,000	22%	1,158,800	29%	1,158,800	29%	288,900	7%	4,010,000
President, Business Aircraft	Nonfamily	616,000	13%	900,000	19%	1,158,800	25%	1,158,800	25%	807,800	17%	4,641,400
President, Commercial Aircraft	Nonfamily	577,500	13%	900,000	20%	1,158,800	26%	1,158,800	26%	747,900	16%	4,543,000
President, Transportation	Nonfamily	768,200	16%	900,000	19%	1,158,800	25%	1,158,800	25%	731,600	16%	4,717,400

Source: BOMBARDIER 2017 Management Proxy Circular

The above analysis shows that Bombardier, a family firm, with strong institutional owners, external creditors, and an external nonfamily CEO, has designed its executive compensation packages in a way that is more in line with S&P 1500 firms than with the other family firms in our sample, as our analysis below reveals.

At CANAM, the president and CEO gets 82% of his annual remuneration in cash (plus 6% on other compensation). This percentage of cash compensation is extremely high compared to the S&P 1500 average of 43%. Equity-based compensation make up only 11% of his annual compensation which is significantly less than the S&P 1500 average of 53%. We see a lot of variation in the composition and total value of the compensation packages of the executives at CANAM. Base salary ranges between 47% and 70% of total compensation and annual bonus ranges between 16% and 36%. Accordingly, the cash component makes up between 81% and 86% of total executive compensation. CANAM does not give out any option-based awards to any of its executives. Share-based awards range between 7% and 16% of total compensation. Table 8 below summarizes the compensation earned by the top five executive officers at CANAM during the year ended December 31, 2016.

Table 8 – Executive compensation – CANAM

Executive	Family/ Nonfamily	Base Salary		Annual Bonus		Option-Based Awards		Share-Based Awards		Other		Total Compensation
		$	%	$	%	$	%	$	%	$	%	
President & CEO	Family	563,784	56%	261,257	26%	-	0%	111,967	11%	63,300	6%	1,000,308
VP & CFO	Nonfamily	285,012	70%	66,037	16%	-	0%	28,301	7%	25,200	6%	404,550
Senior VP, Manufacturing	Nonfamily	394,440	52%	242,491	32%	-	0%	103,925	14%	11,283	2%	752,139
President, FabSouth	Nonfamily	519,000	47%	405,878	36%	-	0%	173,948	16%	15,243	1%	1,114,069
Senior VP, Business Operations	Nonfamily	338,000	48%	235,937	33%	-	0%	101,116	14%	34,200	5%	709,253

Source: CANAM 2017 Management Proxy Circular

Our analysis of CANAM, a family firm with a family President & CEO and only one major shareholder who is also the founder of the firm, shows that this family firm depends mostly on cash to compensate its executives and keeps the use of equity-based awards to a minimum.

The Jean Coutu Group has a family member, the founder's son, filling the dual position of President and CEO of the company. His annual salary plus his annual bonus make up 90% of his annual compensation. This total cash component makes up a percentage that is significantly higher than the S&P 1500 average of 43% of total annual compensation. With respect to equity-based awards, the CEO receives only 12% of his annual compensation in options and gets no shares at all. This is also significantly less than the S&P 1500 average of 53% in equity-based awards. The base salary of the TMT ranges between 44% and 49% of their total annual compensation. The annual bonus ranges between 27% and 28% of the annual compensation of the TMT. Option-based awards make up 9% to 12% of the total annual TMT compensation and share-based awards make up only 5% to 6% of the compensation. This compensation arrangement shows that the cash component of the TMT's total annual compensation ranges between 71% and 90% while the equity-based compensation makes up only 12% to 16% of total annual compensation. Table 9 below shows a summary the compensation received by the TMT of PJC during the fiscal year 2016.

Table 9 – Executive compensation – Jean Coutu Group

Executive	Family/ Nonfamily	Base Salary		Annual Bonus		Option-Based Awards		Share-Based Awards		Other		Total Compensation
		$	%	$	%	$	%	$	%	$	%	
President & CEO	Family	1,003,936	46%	961,269	44%	263,043	12%	-	0%	(44,600)	-2%	2,183,648
VP, Finance and Corporate Affairs	Nonfamily	488,533	45%	296,271	27%	105,212	10%	55,468	5%	150,400	14%	1,095,884
VP, Purchasing and Marketing	Nonfamily	426,030	49%	244,754	28%	91,751	10%	48,479	6%	65,600	7%	876,614
VP, Network/ Exploitation Management	Nonfamily	426,030	44%	258,941	27%	91,751	9%	48,479	5%	149,600	15%	974,801
President, ProDoc	Nonfamily	426,030	44%	260,091	27%	91,751	10%	48,479	5%	133,500	14%	959,851

Source: Pharmacy Jean Coutu 2017 Management Proxy Circular

Again, at PJC, a family firm with very high family control, a family President and CEO, and a high number of family members sitting on the BOD, we see that the cash vs. equity-based compensation distribution is significantly skewed towards the cash component of annual executive compensation. The use of equity-based rewards to compensate PJC's executives is kept to a minimum.

As for Saputo, the family CEO received a 100% of his annual compensation in cash (25% annual salary, 75% annual bonus). The other nonfamily executives at Saputo receive a more diversified compensation package. The base salary makes up between 19% and 26% of total compensation. The annual bonus given for the Non-CEOs makes up between 22% and 29% of their total annual compensation. Saputo rewards its executives with substantial option based awards which range between 20% and 22% of their total compensation. The TMT also receive share-based awards that range between 18% and 20% of their annual compensation. The following table 10 provides a summary of annual compensation earned by Saputo's executives during the fiscal year ended March 31, 2016.

Table 10 – Executive compensation – Saputo

Executive	Family/ Nonfamily	Base Salary		Annual Bonus		Option-Based Awards		Share-Based Awards		Other		Total
		$	%	$	%	$	%	$	%	$	%	Compensation
CEO	Family	1,300,000	25%	3,900,000	75%	-	0%	-	0%	-	0%	5,200,000
CFO & Secretary	Nonfamily	875,000	19%	1,312,763	29%	953,410	21%	874,989	19%	524,600	12%	4,540,762
President & COO	Nonfamily	1,025,000	19%	1,537,808	28%	1,116,854	20%	1,024,981	19%	793,500	14%	5,498,143
President & COO	Nonfamily	907,550	26%	763,431	22%	762,727	22%	699,991	20%	362,400	10%	3,496,099
President & COO	Nonfamily	745,488	23%	932,046	29%	626,529	20%	575,005	18%	295,265	9%	3,174,333

Source: Saputo 2016 Management Proxy Circular

Even with the substantial use of equity-based awards, Saputo remains to rely more heavily on cash to compensate its top management team. Also, it is notable that the compensation package of the family CEO of such a big international family firm is 100% cash dependent. This form of CEO compensation is very different than the current trend shown at S&P 1500 firms. But, this is in line with research calling for more short-term incentives (annual bonus) to family executives and more long-term incentives (equity awards) to nonfamily executives of family firms. This difference in the types of rewards for family vs. nonfamily executives is argued to help reconcile the long-term vision and goals of family owners-managers with the short-term vision and goals of nonfamily executives.

At Transcontinental, the dual position of President and CEO is also filled by a family member. The base salary makes up 16% and the annual bonus makes up 39% of his annual salary. The "other" component makes up a significant 12% of his total annual compensation and most of it is paid out in cash. Thus, total cash compensation is equal to more than 67% of the CEO's total annual compensation, a percentage that is significantly higher than the S&P 1500 average. Share-based awards make up 33% of the CEO's total compensation, making up the total equity-based awards in the absence of any option-based awards granted by TCL. This is also significantly less than the S&P 1500 average. With respect the TMT at TCL, the base salary makes up between 26% and 40% of total compensation. Annual bonus makes up between 18% and 34% of the compensation package. The "other" compensation component also makes up a significant portion of 13% to 16% of the TMT total compensation. TCL does not offer its executives any option-based awards but the percentage of share-based awards is relatively high and make up between 24% and 30% of the TMT total annual compensation. Here, also, the cash component makes up between 70% and 76% of total compensation, a percentage that is significantly higher than the equity-based compensation. The following table 11 provides a summary of the compensation information for the fiscal year ended October 31, 2016, for the TMT of Transcontinental.

Table 11 – Executive compensation – Transcontinental

Executive	Family/ Nonfamily	Base Salary		Annual Bonus		Option-Based Awards		Share-Based Awards		Other		Total Compensation
		$	%	$	%	$	%	$	%	$	%	
President & CEO	Family	995,649	16%	2,374,573	39%	-	0%	1,997,986	33%	750,860	12%	6,119,068
CFO	Nonfamily	508,274	26%	650,556	34%	-	0%	510,001	27%	254,829	13%	1,923,660
President, Printing and Packaging	Nonfamily	519,138	27%	614,392	32%	-	0%	521,016	27%	248,599	13%	1,903,145
CLO & Corporate Secretary	Nonfamily	383,714	40%	192,500	20%	-	0%	231,012	24%	148,762	16%	955,988
CHRO	Nonfamily	316,832	36%	159,000	18%	-	0%	267,103	30%	135,761	15%	878,696

Source: Transcontinental 2017 Management Proxy Circular

Transcontinental represents our last example of a family firm where the family President and CEO and the TMT get most of their annual compensation in cash. In the absence of any option-based compensation and below average share-based awards, TCL is another example of a family firm which depends on cash and keeps the use of equity-based executive compensation to a minimum.

4.8. Discussion

The dominant governance objective of the family firm is the one selected by the largest aggregated type of owner (Sur, Lvina, & Magnan, 2013), in this case the owning family members. The concentration of holdings by the other types of owners may then define the deviation from such an “ideal” objective (Sur, Lvina, & Magnan, 2013). Our analysis of the ownership structure and composition of the BOD and the TMT of our sample family firms is in line with Sur, Lvina, & Magnan (2013) findings. We observe a direct relationship between the degree of family ownership and control on one hand, and family representation on the BOD on the other hand. We also notice that family firms will generally keep the CEO position reserved for a family member. One of the exceptional cases would be when the family firm has a high level of external debt owed to a few powerful institutional creditors. Given that at some point the incentives related to potential promotion become more important than other financial incentives (Guay et al., 2003), we see this trend of reserving the CEO position to a family member serving as a reason behind the hypothesized talent gap at family firms as talented executives would rather work at a different company where they have the incentive and the opportunity to be promoted to the position of a CEO.

Family firms' BOD have a high concentration of family members to reflect the family's control over the company. The family representation on the board embodies the owners' way of assuring that their governance objectives are met. Family firms' boards also have a high number of the independent directors who are mostly old, around the age of the founders or the chairmen of the BOD, have served on the board of directors of the family firm for a long time, and are concurrently serving on multiple other BODs. The age, longtime relationship with the owners-managers of the family firms, and the divided attention of the independent directors makes us infer a more of an advisory role for the BOD in family firms.

Since 1993, the percentage of option pay has increased, while the percentage of salary pay has decreased (Conyon, 2006). But, our analysis of the compensation packages of the CEOs at our sample of family firms shows a trend where family firms rely more heavily on cash than on equity as a form of CEO compensation. Except in the case of Bombardier, where the CEO is an externally hired nonfamily member, the cash component of the compensation package of the CEOs at our sample of family firms is significantly higher than what it should be according to the trend reflected in the average S&P CEO pay. Moreover, while CEOs receive a larger amount of their compensation from options (Conyon, 2006), the CEOs of the other four family firms in our sample don't. We notice that family firms are still reluctant to use option-based rewards as a form of CEOs compensation. In general, the equity component of the compensation package of the CEOs of family firms is significantly less compared to the average S&P CEO equity-based awards. Our observed trend goes more in line with Achleitner et al. (2010) who make a distinction between stock-based and accounting-based incentive pay, and find that family firms rely less on stock-based and more on accounting-based incentive pay than do nonfamily firms.

A limited body of research has compared the total compensation of a family CEO to that of a nonfamily CEO. For example, Gomez-Mejia et al., (2003) and McConaughy (2000) find that family CEOs receive lower compensation than nonfamily CEOs working in family firms. This effect becomes stronger with an increase in family ownership concentration (Gomez-Mejia et al., 2003). Combs et al., (2010), however, show that these findings only hold when family members other than the CEO are represented on the management team or on the board. In the case of BBD, where five members of the Bombardier family sit on the BOD, the CEO received more than double the S&P 1500 average CEO pay and more than all the other family CEOs at the other four case firms in our sample. This observation supports our argument about the extra cost the family firms need to pay to attract and retain nonfamily CEOs and bridge the hypothesized talent gap.

The same trend extends and applies to the composition of the compensation packages of the other named executive officers (NEO) at our sample of family firms. The NEOs of our sample of family firms get a lot more of their compensation in cash-based awards (annual salary and bonus) than in the form of equity-based awards (option-based or share-based awards). Over time, salaries have become less important as a fraction of total pay, the annual bonus fraction has remained constant (approximately 20 percent), and stock options and restricted stock as a fraction of pay have increased (Conyon, 2006). But, our cases analysis shows that this trend in executive compensation is not reflected at family firms. Yet, this trend we observe is in line with the research that shows that as we move below the CEO level, equity based incentives take in a relatively less important role. For example, Core and Larcker (2001) find that non-CEO executives typically hold much less equity as a multiple of their base salary than does the CEO. At the other hand, incentives related to potential promotion become more important (Guay et al., 2003). Stock options and restricted stock are used as a means of attracting and retaining certain types of executives (Guay et al., 2003). Itner et al., (2001) also indicate that employee retention is a primary reason why firms use options. This trend we observe of family firms using little or no options to compensate their TMT can be a catalyst behind discouraging highly qualified executives from joining family firms and thus exacerbating the hypothesized talent gap.

Also, it is argued that institutional ownership, and the monitoring resulting from it, affects the structure of the compensation packages of the TMT and act towards the reduction of agency costs (Brunello et al., 2003; Fogarty et al., 2009). Three out of our five case firms, namely BBD, CAM, and TCL, have significant institutional ownership. In the case of BBD, the only family firm in our sample with a nonfamily CEO, we see that the above argument holds as the compensation package of the TMT has smaller cash based component and bigger equity based component than the other two companies. In the other two cases where the companies have family CEOs, CAM with 15% institutional ownership and TCL with 4% institutional ownership, we see that institutional ownership did not break the family firms' trend of depending more on cash and less on equity to compensate their TMT. Yet, evidence from our Bombardier case study shows that if institutional owners or external creditors are powerful enough, they can hire a nonfamily CEO and restructure the CEO compensation package and TMT compensation packages in a way that makes them resemble the executive compensation packages of nonfamily firms. This along with the evidence from extant research point towards the role that institutional ownership plays in restructuring the compensation packages of the TMT in a way that makes family firms more attractive for external highly skilled talent and eventually help close some of the hypothesized talent gap.

4.9. Conclusion and Research Contributions

Based on where current research is, we see an opportunity to add to our understanding about CEO and TMT compensation in general and in the family firm setting in specific. This paper studies the composition of the BOD and the composition and compensation of the TMT at five publicly traded Canadian family firms. Our study partially answers to both the Sur et al., (2015) and Graham et al., (2012) and aims at highlighting patterns in family firms' board composition and executive compensation that help us better understand these critical aspects of the corporate governance of family firms.

Our analysis reveals that family firms prefer to keep as much ownership and control in the family as possible. In the event when the family firm needs external financing, dedicated external investors who share a long-term vision with the family are preferred to "transient" investors who are more interested in short-term returns. Our data analysis also uncovers a pattern where the high concentration of family control is reflected in a high number of family members sitting on the BOD. From a behavioral perspective, the presence of family members on the board ensures the advisory role needed to be played by the directors to perpetuate the ideology of the owners of the family firms. The effect of diminished family ownership and control coupled with increased institutional ownership and control is reflected on the composition of the BOD by having less family directors and more independent directors. Agency theory explains the increased number of independent directors on the board by their supervisory role to protect the interests of the institutional investors from the potentially self-serving family directors. The matching between aggregated ownership and board composition rests on a multi-theoretical assessment that different types of owners have different risk assessments and push for different imperatives, which map onto their preferences for director profiles (Sur, Lvina & Magnan, 2013). We also observe that family firms like to keep the position of the CEO for a family member. We believe that the involvement of powerful external creditors and/or institutional investors, such as the case of BBD, can lead the BOD to hire an external nonfamily CEO.

Moreover, our analysis of the compensation packages of the CEOs at our sample of family firms shows a trend where family firms rely more heavily on cash-based awards (annual salary and bonus) than on equity-based awards (option-based and share-based awards) as a form of CEO compensation. Family firms avoid the use of option-based awards. Their use of share-based awards is also kept at a minimum. Family firms' reluctance to use equity-based awards to compensate their executives can be explained by their reluctance to share their family firms' ownership with nonfamily members. We also observe that a nonfamily CEO gets higher pay at a family firm than a family CEO. With respect to the compensation packages of the executives below the CEO level, we find that the NEOs of our sample of family firms also get a lot more of their compensation in cash than in equity-based awards. This is also against the general trend of increased equity-based awards but in line with other research that shows that as we move below the CEO level, equity based incentives take in a relatively less important role. This trend of not granting shares or stock-options as part of executive compensation can be explained by the family firms' owners' reluctance to share ownership with any nonfamily members. Other evidence from our cases along with evidence from extant research point towards the role that institutional ownership plays in restructuring the compensation packages of the TMT in a way that makes family firms more attractive for external talent and eventually help close some of the hypothesized talent gap. In conclusion, our observed trends in BOD formation, CEO assignment, and executive compensation support the existence of the hypothesized talent gap at family firms.

The primary contributions of this research are threefold. First, this paper adds to the executive compensation literature by providing an exhaustive analysis of the board formation and executive compensation practices at five publicly traded Canadian family firms. The paper provides a better grasp of the situation at family firms and identifies some patterns in BOD formation and CEO and TMT compensation. This clinical-type analysis can serve as a foundation for a more elaborate study in the future. Second, this paper answers the calls by Gomez-Mejia et al. (2001), Sirmon and Hitt (2003), Chua et al. (2009), Chrisman et al. (2009) and Prencipe et al. (2014) for more research on the effect of family businesses ownership and pursuit of noneconomic goals, such as reserving the CEO position for a family member, on the level and structuring of compensation, and on attracting, hiring, and retaining family and nonfamily managers. This paper also partially answers the question put forward by Sur, Lvina, & Magnan (2013) as to whether different ownership types play a role in the choice of CEO by showing that family controlled firms will always strive to have a family CEO. Third, professionals can also benefit from the findings of this research. The findings of this paper can potentially help family businesses avoid the talent gap disadvantage by designing better compensation packages to attract and retain talented nonfamily executives. For example, family firms can give more significant equity-based awards to nonfamily executives and have the CEO position attainable by any deserving executive and not have it reserved for family members only.

Of course, we need to acknowledge different limitations of this study. We understand that while focusing on a small number of firms creates an in-depth understanding of the phenomenon at study, it confines the generalizability of the results. Also, although we have tried to take as many aspects of the case firms into consideration, it is impossible to ensure the exhaustiveness of the factors affecting the composition of the BOD, TMT, and the TMT compensation. Including other information such as firm profitability and more firms-years observations would certainly have enriched our data and better confirmed our observations. Yet, these limitations do not prevent this study from contributing to the compensation and family business literature by offering insights into their executive compensation practices. Finally, we believe that the observed trends outlined in this study make interesting material for future research in which researchers as well as practitioners can better understand family firms and help them make up for one of their big disadvantages – close the talent gap.

Chapter 5 – Conclusion, Limitations, and Directions for Future Research

This dissertation is comprised of three interconnected essays which discuss pivotal issues related to the corporate governance of family firms. The first essay identifies the defining aspects of family firms from the definitions, perceptions, and mental drawings of their owners-managers. The second essay explores and uncovers how management control technologies are calibrated with reference to the dual identities of family firms. The third essay recognizes several trends in CEO and TMT compensation practices at family firms that could help them understand and overcome the difficulties they find in attracting and hiring highly qualified external executives.

The first essay contributes to the family business literature by uncovering seven defining factors of family firms directly from their owners-managers. It also contributes to the management control literature by suggesting how a family firm's definition can act as a management control tool. The insights provided by this paper suggest that the owner-manager's perception of what their firm is and what they want out of it denotes where they place their business on the familiness continuum. The family firm's degree of familiness does not just happen by accident, but is premeditated and deliberately executed as part of the plan to achieve both the family firm's financial and familial goals.

Also, the first essay reaffirms the coexistence of the dual control ambitions discussed in the family firms' literature. But we do not find that the family firms' SEW is, per se, always prioritized over its economic wealth, as the SEW theory would specify (Berrone, Cruz & Gómez-Mejía 2014; Salvato & Moores 2010). Alternatively, we find that the priorities of the family firm can shift depending on the family firm's goals, which are set based on the owner-manager's view of the family firm.

The first essay also uses Simons' levers of control as an alternative analysis tool to uncover how the definition of the family firm is used as a management tool to control the family firm. We argue that the owner-manager's definition of their own family firm plays the role of a management-control tool embedded in the belief system, and potentially affects setting the interactive control system of the firm. Thus, the owner-manager's definition of the family firm becomes a management-control tool used to set the direction of the firm and attain its familial and economic goals.

The second essay contributes to the management control and family business literature in that it unfolds how management control technologies are calibrated in reference to the family firm's dual identity. The findings show the liberating force of minimally using management control technologies as well as the professionalising force of pervasively using management control technologies, such as calculative, family-centric, and procedural controls. The study further provides an attempt to illustrate the notion of calibration to unfold how management control technologies are made amendable to fit into the dual identity of family firms. The way family firms refer to their dual identity is interesting insofar as it is indicative of how they have separated their firm's identity into two parts which they then juxtapose, whereby the duality of the family and business identity becomes a dichotomy. In this dichotomy, pervasive use of management control technologies is unilaterally referred to the business identity of the firm.

Instead of seeing an account of how management control technologies are rendered amendable to the dual control ambition of family firms, our case study unfolds how management control technologies are homogenously related to one control ambition: economic rationality. Family firms seem to perceive management control technology as a means through which they can foster economic rationality and thereby reduce familial affectivity. Management control technology is not regarded as a practice embracing duality as we might expect from the dual role of controls discussed in management control literature (Mundy, 2010; Simons, 1995; Tessier and Otley, 2012) - nor that affectivity is per se prioritised over economic rationality - as a socioemotional wealth perspective would indicate (Berrone *et al.,* 2012; Gómez-Mejía *et al.,* 2007; Gómez-Mejía *et al.,* 2010). Instead, its purpose is homogenised into a singular function, which is promoting economic rationality and reducing familial affectivity.

The third essay contributes our understanding about CEO and TMT compensation practices in general and in the family firm setting in specific. The study partially answers to both the Sur et al., (2015) and Graham et al., (2012) and highlights patterns in family firms' board composition and executive compensation that help us better understand these critical aspects of the corporate governance of family firms.

The cases analysis uncovers a pattern where the high concentration of family control is reflected in a high number of family members sitting on the BOD. From a behavioral perspective, the presence of family members on the board ensures the advisory role needed to be played by the directors to perpetuate the ideology of the owners of the family firms. The effect of diminished family ownership and control coupled with increased institutional ownership and control is reflected on the composition of the BOD by having less family directors and more independent directors. Agency theory explains the increased number of independent directors on the board by their supervisory role to protect the interests of the institutional investors from the potentially self-serving family directors. The matching between aggregated ownerships and board composition rests on a multi-theoretical assessment that different types of owners have different risk assessments and push for different imperatives, which map onto their preferences for director profiles (Sur, Lvina & Magnan, 2013). We also observe that family firms like to keep the position of the CEO for a family member.

Moreover, our analysis of the compensation packages of the CEOs at our sample of family firms shows a trend where family firms rely more heavily on cash-based awards (annual salary and bonus) than on equity-based awards (option-based and share-based awards) as a form of CEO compensation. Family firms avoid the use option-based rewards. Their use of share-based awards is also kept at a minimum. With respect to the compensation packages of the executives below the CEO level, we find that the NEOs of our sample of family firms also get a lot more of their compensation in cash than in equity-based awards. This is also against the general trend of increased equity-based awards but in line with other research that shows that as we move below the CEO level, equity based incentives take in a relatively less important role. Family firms' reluctance to use equity-based awards to compensate their executives can be explained by their reluctance to share their family firms' ownership with nonfamily members. Other evidence from our cases along with evidence from extant research point towards the role that institutional ownership plays in restructuring the compensation packages of the TMT in a way that makes family firms more attractive for external talent and eventually help close some of the hypothesized talent gap. The simultaneous involvement of powerful external creditors and institutional investors and the hiring of a new external nonfamily CEO at Bombardier represent the exception in our sample of family firms that confirm this observation. In conclusion, our observed trends in BOD formation, CEO assignment, and executive compensation support the existence of the hypothesized talent gap at family firms.

Qualitative research is found to be significantly underutilized, even though this approach may provide detailed understanding of accounting/control phenomena within family firms (Prencipe, Bar-Yosef & Dekker 2014). As an answer to Prencipe et al. (2014), this dissertation uses a field-based qualitative case study approach to research the definition, management-control, and executive compensation practices of family firms (Prencipe, Bar-Yosef & Dekker 2014; Salvato & Moores 2010). The dissertation employs semi-structured in-depth interviews, drawings of mental maps, and examination of publicly available information, and, thus, contributes to the literature by combining more than one data collection method with qualitative analysis to substantiate different defining factors of family firms, different calibrations of management control technologies, and several trends in executive compensation.

Yet, as is common in qualitative research, the results are not intended to be generalizable at an empirical level. Instead, the evidence we draw from the 20 interviews held with family firms in Quebec, Canada, are used to highlight the important defining factors from within the family firm, propose a family firm definition, and a familiness measurement tool. We use the other evidence we draw from the same 20 interviews to develop a theoretical argument on how management control technologies are calibrated to reconcile with the family firm's dual identity. The interviewees view that management control technologies alter their firm's identity. In that sense, they demonstrate a strong belief in the potency of management control technologies to change the dual identity of their firms. While other internal and external stakeholders can have different conceptualizations of the family firm, we choose to investigate the defining factors of the family firm from the point of view of their owners-managers. Consequently, we tap into the knowledge of 20 owners-managers who have the essential first-hand knowledge and understanding to provide us with meaningful insight into their firms. Incorporating different stakeholders' perspectives about the essence of the family firm is left to future research. To this end, interviews with various stakeholder groups, such as external auditors and external creditors, would be an insightful approach. These management-control arguments, the proposed definition, and the proposed family firm familiness measurement tool represent, in our view, interesting avenues for future empirical research.

Similarly, for the third essay, we understand that while focusing on a small number of firms creates an in-depth understanding of the phenomenon at study, it confines the generalizability of the results. Additionally, although we have tried to take as many characteristics of the case firms into consideration, it is impossible to ensure the exhaustiveness of the factors affecting the composition of the BOD, and the CEO and TMT compensation. Including other information such as firm profitability and more firms-years observations would certainly have enriched our data and better confirmed our observations. Yet, these limitations do not prevent this study from contributing to the compensation and family business literature by offering insights into their executive compensation practices.

Based on the finding of the first essay that family firms' SEW is not always prioritized over its economic wealth imperative, we call for future research to expand and fine-tune the concept of familiness and its components, which are based in the RBV of the firm, as it appears to provide a more accurate analysis tool for understanding the family firm.

The first essay also underlines the family firms' preference to grow organically and avoid external debt to maintain financial independence and uphold family control. But debt is known to be a low-cost source of capital and, accordingly, we suggest that future research tackles the issue of potential business opportunities lost by avoiding using debt for future projects and expansions. In this regard, future research can answer the following questions: What are the consequences to only expanding by organic growth? What are the costs and benefits of family firms' financial independence? Moreover, the long-term horizon of family firms, combined with their low appetite for external debt, makes an interesting setting for management accounting research on criteria and technologies used in the investment decision-making process at family firms. For example, future research can answer the following questions: What are the criteria used for a family business to expand or to invest in a new project? Which capital budgeting techniques do they use?

We believe that the first essay proposition about the definition of the family firm doubling as a management-control tool that is used to set the direction of the firm and attain its familial and economic goals also merits future investigation. Understanding all the implications of the definition of family firms has the potential to help researchers and practitioners better understand how family firms are managed and controlled.

The first essay also sheds light on an important side of the succession process that happens when the founders or current owners-managers of family firms are faced, usually at a later stage of their career, with the fact that they will not have any family members to succeed them in running the family firm. Future research can investigate the reasons why family firms' owners-managers prefer to sell off their firms to having non-family management when they cannot ensure the involvement of anyone from the next generation in the firm. Could this fact potentially influence the valuation of the business? Would it be better to sell a family firm while the family manager is in power, or is it better for the heirs to sell immediately after the family manager's death or retirement? We present these questions as potential avenues for future research on the costs of changing ownership under these specific circumstances.

While the second essay focuses on the management control technologies, future research could investigate how other forms of control, such as cultural controls, are implicated in forming the family firm's dual identity. Our interviewees' explanations for not using management control technologies point towards the use of different forms of cultural controls. At the same time, we find it interesting that our interviewees did not explicitly incorporated these forms of control in their narratives on using management controls. This non-association represents, in our view, an interesting avenue for future research. Future research could expand on this by examining in more detail why informal, personal, social or clan controls might not be perceived as part of the family firm's management control package.

Finally, we believe that the executive compensation trends outlined in the third essay also make interesting material for future research. Researchers as well as practitioners can use these identified trends to better understand family firms and help them make up for one of their big disadvantages manifested in the difficulty they face in attracting and hiring highly qualified external executives. For example, Gomez-Mejia et al. (2001), Sirmon and Hitt (2003), Chua et al. (2009), Chrisman et al. (2009) and Prencipe et al. (2014) all call for more research on the effect of family businesses ownership and pursuit of noneconomic goals, such as reserving the CEO position for a family member, on the level and structuring of compensation, and on attracting, hiring, and retaining family and nonfamily managers. Sur, Lvina, & Magnan (2013) also ponder the question whether different ownership types play a role in the choice of CEO. The clinical-type analysis that this essay presents can serve as a foundation for a more elaborate study in the future that can answer more of the above-mentioned research questions.

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Appendix 1: Information on interviewed family firms

Family firm				Ownership		Family involvement in management	
Number	**Function of interview partner**	**Industry**	**Size**	**Family**	**Generation**	**CEO**	**Top management team***
A1	CEO	Food	Small	Three siblings: 100% in one family	Second generation	Second generation	Two siblings, second generation
A2	President	Chemicals	Small	Founder and nephew: 100% in one family	Founder and Second generation	Second generation	Founding president; one, third generation
B1	President	Manufacturing	Large	Single owner, 100% in one family	Third generation	Third generation	Three siblings, fourth generation
B2	Co-CEO	Chemicals	Medium	100% in one family	Founders and second generation	Second-generation co-CEOs	
B3	Founder/CEO	Furniture	Medium	100% in one family	Two founders	Founder	Second founder; one, second generation
C1	President and CEO	Construction	Large	Public, 12.5% in one family	Founder	Second generation	
C2	President	Construction	Small	Single	Second	Third	Second

	and CEO			owner, 100% in one family	generation	generation	generation chairman; two, third-generation siblings
C3	Founder/CEO	Manufacturing/Retail	Small	Single owner, 100% in one family	Founder	Founder	Two siblings of the founder
E1	CEO	Software	Small	Single owner, 100% in one family	Founder	Founder	
G1	President	Manufacturing	Medium	100% in one family	Founder and second generation	Founder	Three siblings of founder
G2	President and CEO	Industrial Supplies	Large	Single owner, 100% in one family	Second generation	Third generation	One sibling, third generation
I1	VP	Agriculture	Small	100% in one family	Founders and second generation	Founder	Two founders; one, second generation
J1	CEO	Pharmaceuticals	Large	Public, 53% in one family	Founder and second generation	Second generation	Founder; four, second generation; two, third generation
N1	CEO	Manufacturing	Large	60% in one family,	Founder	Non-family	Founder Chairman

				private company			
P1	Director	Shipping	Small	100% in one family	Two founders	Founders Co-CEOs	One, second generation
R1	Founder/CEO	Industrial Supplies	Small	100% in one family	Founder	Founder	Wife
S1	President	Construction	Medium	50-50% in Two families	Founders	Founder	Other founder; two, second generation
S2	CEO	Food	Large	Public, 51% in one family	Third generation	Third generation	
T1	President	Manufacturing/Retail	Medium	100% in one family	Third generation	Third generation	Two third-generation siblings
V1	Co-CEO	Food	Large	20-80% in two families	Founder and second generation	Second-generation co-CEOs	One second-generation sibling

*Top management team information in addition to CEO

Appendix 2: Interview guide

Part 1: Family firm's dual identity

First, drawing of mind map:

As a family business owner/manager, please use this white A3 sheet of paper to draw all the different component parts and stakeholders of your family business.

Guiding questions based on drawn mind map:

- Which of these do you think are the reason you are defined as a family business?
- Who are the primary/main stakeholders and who are the secondary/ less important ones?
- What is the difference between a family business and a non-family business?

Second, questions on the family firm's goals:

- Why did you start/ are you working in this company?
- What is the main mission of this company?
- When would you say that you had a successful career?
- Where do you envision the company to be at, ideally, when you decide to leave it?
- Is there anything that you are passionate about seeing happen in this company before you retire?

Part 2: Use of management control

Guiding questions:

- How do you measure the success of your firm?
- How do you keep track of your company's performance?
- What kind of management control reports do you currently use?
- What are the reports you use and track on a daily, quarterly and yearly basis?
- How do you make use of these reports? (To make decisions? To assess performance? To decide on compensation?)
- What kind of performance indicators do you keep track of with your managers?

Part 3: Company management and ownership profile

Guiding questions on the management profile:

- With respect to management, which generation(s) manage(s) the company?
- How many family members participate actively in the business?
- How many family members do not participate actively in the business? Why?

Questions on the ownership profile:

1. What is the proportion of share ownership held by family and non-family members?

(a) Family ________%

(b) Nonfamily ________%

2. What generation owns the company?

3. Are you a private firm or a public firm?

4. Has the firm switched from private to public or from public to private? If so, why?

5. Are shares held in a holding company or similar entity (e.g. trust)? 1. ❑ Yes 2. ❑ No

If YES, please indicate the proportion of ownership:

(a) Main company owned by:

(i) Direct family ownership: ————%

(ii) Direct non-family ownership:————%

(iii) Holding company: ————%

(b) Holding company owned by:

(i) Family ownership: ————%

(ii) Non-family ownership: ————%

(iii) 2nd holding company:————%

(c) 2nd holding company owned by:

(i) Family ownership:————%

If NO, how it is held?