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Abstract This explorative research paper illuminates the governance systems in Spanish family businesses, and evaluates the extent to which they pursue good governance practise both in the business and family areas. Empirical evidence is drawn from a database of 112 sizeable Spanish firms, and the results show the absolute dominance of the leading family in the ownership, control and management of sample firms. Approximately half of the members of the board tend to be insiders and more than two-thirds are family members. It emerges that generational firms (with third generation and beyond owner-managers) exhibit greater similarity in their governance structures to first generation firms than second generation ones; this might be due to the so-called “pruning” which is used as a survival mechanism. Overall, it emerges that family firms have a very low degree of board regulation by formal rules and family governance systems are hardly developed.

Introduction

In recent years academics and professionals have shown increasing interest in the study of corporate governance which enhances our knowledge of how corporate governance influences firm’s management, strategies and performance. Corporate governance can be defined as the system by which companies are directed and controlled (Cadbury, 1999). So, it centres on the configuration of control mechanisms that attempts to limit problems arising from potential conflict of interest between the different participants in the firm, managers, shareholders, employees, creditors, etc. In this paper, we try to integrate all the stakeholder groups with an interest in the governance discussion, hence adopting a broad definition in contrast with the narrower, more traditional definitions which follow a shareholder approach (Pieper, 2003).

Jensen (1993) distinguishes two basic types of governance mechanisms:

- (1) External, which includes the stock markets, the legal/political/regulatory system and the product and factor markets.
- (2) Internal, including the board of directors, the ownership regime, debt structure and management reward systems.

The relative importance of such mechanisms depends to a great extent on the corporate and institutional characteristics of the business. On one hand, in Spain there is a high incidence of firms controlled by families. According to different studies, families control between 40 per cent (Santana-Martín and Cabrera-Suárez, 2001) and 60 per cent (Faccio and Lang, 2002) of listed companies. On the other hand, Spain can be included in the groups of countries with a legal system based in the principles of civil law that is in contrast with to the Anglo-Saxon model which based on common law. Therefore, in Spain we can observe a low level of protection of external investors’ interests (La Porta



et al., 1998) and so internal mechanisms become more relevant, especially the board of directors.

The literature on boards has developed a tradition of research that analyses how the composition, the size and the structure of board leadership (e.g. whether the functions of CEO and chair person coincide or not in the same person) may influence organisational performance. As such, several “best practice” codes for good governance have been promoted around the world. However, empirical results do not generally support these recommendations since existing evidence is not very conclusive about the presence of concrete association between the structure of the board and the organisation’s financial performance (Johnson *et al.*, 1996; Dalton *et al.*, 1998; Dalton *et al.*, 1999).

The objective of this research is to reflect on the governance system in operation in Spanish family businesses and to explore the extent to which they follow the recommendations for best governance practise in both the firm and family areas. Moreover, a review of how governance systems develop will be considered in the context of generational evolution of family businesses. Thus, this explorative investigation is an attempt to make a contribution to an overlooked area of research, particularly in Spain.

Although there is no consensus of opinion about the concept of the family business, we can find certain common elements in the definitions within the literature. Behind many of those conceptualisations, there is, either implicitly or explicitly, the idea of family influence or control over a business, basically in two forms, ownership and management (Neubauer and Lank, 1998). Consequently, the key to understanding the behaviour of these organisations lies in the interaction of the two different sub-systems, family and business, and its effect on the actions of all those involved. Therefore, the uniqueness of family businesses is rooted in the fact that the intra-organizational relationships are based on family ties and the intention is that those ties will last (Litz, 1995). So, what makes a family business unique is the influence of a family group on the ownership, governance, management and succession, as well as on objectives, strategies, firm structure and the way in which these are formulated, designed and implemented (Chua *et al.*, 1999).

When a family is in control of a firm, we may assume that there will be a transfer of goals and values from the family to the business sub-system, and vice versa (Lansberg, 1983; Dyer, 1986; Chua *et al.*, 2003). Therefore, the behaviour of this prolific type of organisation will show some significant features because the relationships between its stakeholders will be based on family links. That is, the family itself would be a stakeholder organisation (Cabrera and Déniz, 2001). As a result, certain peculiarities may occur in the functioning of control mechanisms in the business area, mainly the board of directors, since, apart from corporate problems, there are the additional family conflicts and conflicts stemming from the relationship between business and family. Moreover, it has been proposed that the governance system of these organisations must include additional governance mechanisms in the family area with aim of anticipating any familial problems that could permeate and adversely affect the business. Among those instruments, we could identify the family meeting, assembly or council and the family protocol. In that way, there is an attempt to ensure that only the positive aspects of the family influence the actions of the firm, and as such avoid problems of a family nature that endanger the businesses’ long-term survival. So,

family business governance requires parallel family and business thinking in a way that allows for family relationships to be managed in addition to business relationships (Cadbury, 2000; Carlock and Ward, 2001).

Therefore, in this research paper we adopt a systemic focus to the study the governance of family firms (Pieper, 2003), by taking into account all the actors inside the family firm and their multiple relationships within the governance system. In this sense, we try to analyse the relationships between the family and the board, between the board and various stakeholders and between the family and the management.

In the following sections of the paper we briefly review the literature pertaining to board of directors and the theoretical basis for the correct board composition and functioning. Then we also consider family centred recommendations about governance mechanisms in the family area. Following this, the research methodology and results of the empirical investigation are explored. Finally, there is a general discussion of the findings and concluding remarks, including suggestions for future research.

Elements of governance in the firm: the board of directors

The most important functions of the board of directors can be described in terms of three overlapping roles, service, resource dependence and control (Johnson *et al.*, 1996). With regards to the role of service, the directors advise managers about administration and management matters, help managers to formulate strategies and improve the businesses image and reputation through the directors' own professional achievements (Zahra and Pearce, 1989). The role of resource dependence refers to the actions of the directors as representatives of specific institutions who facilitate the acquisition of external resources that are important to the firm's success. The responsibilities of board members in terms of exercising control over the CEO and other managers include contracting and dismissal of staff, fixing the level of remuneration, appraising managerial performance, reviewing strategic decisions and plans, and supervising managers so that they act in the best interests of the shareholders (Fama and Jensen, 1983; Zahra and Pearce, 1989).

However, CEOs do not necessarily value the three roles in the same way and may have some ambivalent feelings towards external directors. Therefore, it is possible that CEOs value the important services and resources that directors can contribute while at the same time may feel like rejecting the idea of external directors interfering, due to a fear of losing control over performance and strategic decisions (Fiegenger *et al.*, 2000). This is especially so where the CEO holds a significant part of ownership, as usually occurs in family businesses. In these cases, the CEO has the ultimate power of decision, so he/she can ignore the board's decisions and change directors. In fact, it has been argued that avoiding control is not only a way of looking after one's own interests but also of building and protecting one's own identity, a critical aspect of the entrepreneurial and paternalistic character (Flamholtz, 1986; Johannisson and Huse, 2000). The entrepreneur owner-manager often perceives the business as an extension of his/her personality and ethos, intricately bound with family needs and desires and this will influence human resource development, capital structure and investment decisions, and strategic posture (Poutziouris, 2003).

The literature has discussed the question of how boards should be composed in order to best fulfil the aforementioned functions. The notion of the board's composition, in reality, includes the difference between a board formed of directors functioning

independently of the firm and its management team (specifically the CEO), and a board mainly made up of members of the management team (Dalton *et al.*, 1998). Consideration of one composition or the other will depend on initial theoretical suppositions. The agency theory suggests the need for independence, given the potential problems associated with opportunist behaviour. However, in founder-centred family firms, the owners will also be managers. Therefore, in terms of the agency theory (Jensen and Meckling, 1976; Fama and Jensen, 1983), it could be argued that a family's involvement in ownership and management avoids the problem of possible exploitative behaviour of the agent towards the principal, and the costs that supervision entails. Obviously, those problems and the associated agency costs should be eliminated if the principal and the agent are one and the same, something that widely occurs in family businesses (Daily and Dollinger, 1992). Other authors, however, argue that family ownership and management expose the business to risks in agency terms. This is because restricted ownership reduces external governance and accentuates the problems of self-control that arise from the moment that a firm is headed by a powerful owner/manager or because family relationships tend to make agency problems more difficult to resolve (Schultz *et al.*, 2001).

However, organisational relationships can be analysed from another perspective, along the lines of an alternative model governing the motivation and behaviour of managers, as put forward by the stewardship theory (Davis *et al.*, 1997). This approach states that, managers whose needs are based on growth, achievement and self-realisation, and who are intrinsically motivated can make better use of organisational objectives than personal ones. Similarly, managers who identify with their organisations and are strongly committed to organisational values are more likely to serve organisational ends. Consequently, the stewardship theory suggests that the directors' independence from the management is neither important nor necessary (Dalton *et al.*, 1998). In fact, it has been argued that family firms naturally apply a stakeholder view since their foundations are based on shared values and long-term relationships (Carlock and Ward, 2001). Given that family and business values and objectives coincide, at least among the first generation of owner-manager, it is important to take into account the postulates of this theoretical approach when interpreting an analysis of governance in family companies.

According to Dalton *et al.* (1998), in order to establish the composition of the board, we need to distinguish between different types of directors:

- internal, those belonging to the management team i.e. "insiders";
- external, who are not directly employed by the firm; and
- affiliated, who are external directors (not managers), but with some personal and/or professional links with existing management.

These directors although external cannot be considered independent due to their affiliation with management. The authors argue that it is difficult for those directors whose links are through personal relationships (for example, family relationships) to be totally effective in fulfilling the three functions of a director. Also, the propensity of the founders of family firms to centralise decision making and control could influence the composition of the board. In this sense, they will probably be reluctant to open the boards to individuals outside the companies' management as well as to those outside the family. A recent study of listed family and non-family firms in Spain showed the

preponderance of internal directors in both types of organisation as well as the importance of family directors in family firms (see Table I).

However, the transition from the founder-owner manager to the second generation of owner-managers may provide a boost to the adoption of new, more professional practices, in a way that the successors may realise that external directors do not pose such a real threat to their discretion to take decisions and are more valuable for giving advice and opinions (Fiegener *et al.*, 2000). There is evidence, both for listed and non-listed companies (Camisón, 2001; Santana-Martín and Cabrera-Suárez, 2001), about the positive influence of the family nature of the firm on the wealth of the shareholders, provided that there is a significant non-family shareholder. In open family firms, the representatives of non-family owners on the board could offer a functional counterpoint in decision making.

Governance instruments in the family

The notion of family, by definition, implies certain links based on relationships of trust. This reduces the costs associated with exchanges because it lowers the costs of supervision while providing a safeguard against opportunist behaviour and may form the basis of moral integrity (Aronoff and Ward, 1995). Trust may provide a competitive advantage to organisations that base their governance mechanisms on it (Hosmer, 1995; Cabrera-Suárez *et al.*, 2001; Steier, 2001). However, the evolution of family businesses and the accompanying changes in the relationships of those involved in the different sub-systems may damage that trust. Thus, succession in the form of a sibling partnership or a cousin consortium (Ward, 1987, 1991) will be linked to changes in the patterns of interrelationships in the families, which may weaken that trust and make it necessary to invest in governance mechanisms in the family area in order to strengthen it (Gersick *et al.*, 1997; Steier, 2001).

Consequently, it is necessary in family businesses to examine, apart from the elements of corporate governance, the role of the owner family in firm governance since

	Family firms	Non-family firms
<i>Number of directors</i>		
Mean	9.3	11.7
Median	8.5	10
Standard Deviation	3.5	4.6
<i>Percentage of internal directors</i>		
Mean	29.8	24.3
Median	23.6	20
Standard Deviation	20.9	16
<i>Percentage of companies with an executive chairperson</i>		
	76.9	76.3
<i>Percentage of family directors</i>		
Mean	44.9	
Median	34.8	
Standard Deviation	27	

Source: Santana-Martín (2002)

Table I.
Composition of the board of directors of listed non-financial Spanish companies, 1999

it is precisely that family element that differentiates these organisations from any other business form. Therefore, we define family governance as the set of institutions and mechanisms whose aim is to order the relationships occurring within the family context and between the family and the business. These mechanisms may be both formal and informal and will vary over time in line with stage of ownership and the life cycle of the firm and the family (Gersick *et al.*, 1997; Neubauer and Lank, 1998; Carlock and Ward, 2001).

In that way, in the first evolutionary stages of the family business, the informal family meetings may be the suitable forum for spouses and offspring, when they are old enough, to deal with matters related to the firm. Gradually, matters related to the family business will arise in a way that information about working in the family business will be transferred and this can have a significant influence on the offspring's disposition to work in the firm. Moreover, around the family table is normally where the offspring's first contacts with business are arranged, such as summer jobs or part-time jobs in evenings or/and on weekends.

As the family matures, especially after the transition to a sibling partnership, each family group can continue with these informal family meetings with members of three or even four generations. However, the need will arise to create a forum for discussion between the branches of the owner family, which will probably give rise to more formal meetings that can be called "family assemblies or forums". In the cousin consortium stage, it is especially useful to hold such assemblies if the family intends to avoid the negative forces accompanying a group of shareholders from multiple family branches, both active and inactive in the firm. Therefore, the basic purpose of the family assembly is for the families to gather so that the members may deal with matters of mutual family interest, as well as with relationships between family and firm.

The "family council" normally has a *raison d'être* when the family assembly reaches a certain size and is too large to govern the family and play a positive role in the interrelationships between family and firm. The main functions of the family council are:

- to be the liaison between the family, the board and the general management;
- to propose and discuss candidates to the board;
- to draw up and revise family protocol; and
- to deal with any other matters of importance to the family.

Family institutions should specify, preferably in a written document approved by the family assembly or council, the aims, expectations and fundamental values of the family. It is needed to have a clear distinction between the roles of the different family institutions and between those and the board, the CEO and the managerial team. It is important that this document or "family protocol"[1] tackles certain basic questions of family governance, firm governance and the relationships between the two. The responses should reflect the particular qualities of each family and the firm at a given moment. The protocol should contain specific measures designed to establish programs and activities for family members:

- training (business training, leadership training, settling conflicts, courses, seminars about family business matters, etc.);
- a code of family ethics;

- a regulation of the work of family members in the firm;
- mechanisms to improve communication; and
- mechanisms to help family members with any type of serious problem, etc.

The most important act is the regulation of governance bodies, in particular, a permanent and active family council, which will in turn facilitate the other measures.

Research methodology

This empirical research involved a population comprising of 612 family businesses belonging to 14 regional family firm associations throughout Spain. Given the normal restrained enthusiasm of organisations in general, and family firms in particular, to give information to outsiders, those associations, co-ordinated by the Family Business Institute, were approached in an attempt to secure higher participation of family firms in the self-administered, postal survey questionnaire.

Before the questionnaires were mailed, a copy was sent to the directors of the Family Business Institute, who reviewed the survey instrument and suggested a few modifications. After a pre-test was carried out with two firms the questionnaire was finally mailed to the target group of 612 companies. There were two mailings, the first during April and May 2001, and the second in the following November and December. In order to boost the response rate, the mailings were done through the regional associations and were accompanied by a letter both from the chairman of the Family Business Institute and from the chairman of the relevant regional association. A total of 112 completed questionnaires were received by the closing date of March 2002. That gave a response rate of 18.3 per cent with an 8.5 per cent margin of error. In 75 per cent of cases, the questionnaires had been completed by the head of the firm.

The research team assumes that all responding businesses were family firms. This is based on self-classification where, the chief executives, managing directors, or chairpersons, perceive the venture to be a family firm. However, after analysing the distribution of the ownership and the composition of the management board, the great majority of the sample firms did also fit more restrictive family business definitions, where family members dominated the shareholding regime and management boards (Westhead and Cowling, 1998).

Profile of database

Before the presentation of the empirical findings, here is a brief summary of the profile of the database:

- Legal form: 91 per cent of the sample family firms were privately held limited liability companies. Only two of the companies were listed on the Spanish stock market with another dozen considering the possibility of floatation.
- Sectoral distribution: sample companies were classified in the broad industrial categories as follows: food and agriculture, (18.75 per cent) construction and construction related manufacturing (16.9 per cent), wholesale or retail trade (12.5 per cent), chemical (8.9 per cent) and hotel, catering and tourism (5.3 per cent).
- Age distribution: the database represents predominantly established businesses as only three per cent of the sample were less than 10 years old. More specifically,

43 per cent were more than 40 years old, while around 10 per cent were older than 100 years.

- Distribution across generation of family owner-management: 38 firms were in first generation, 35 in second generation and 35 in third generation (four firms did not answer this question).
- Size distribution (by employment): as Table II indicates firms were almost equally divided in terms of the sizeable, those more than 200 workers, and the small- to medium-sized with less than 200 staff. It emerges that the proportion of sizeable family firms increases across the generational spectrum, irrespective of the measurement of scale of operation i.e. employment, sales, or asset base.

Empirical results and discussion

Family ownership – management control

The study explored a number of variables that may indicate the level of influence that families exert on their businesses. In most firms, especially first generation ones, the CEO was a family member. Regarding the presence of other managers (see Table III), we notice that, in general, the number of other family managers is around two, a number that does not seem to vary to any great extent with generations. However, the number of other, non-family managers does increase across generations and this is a statistically significant observation. It can be argued that as the business develops, it outgrows family management talent and has to incorporate non-family managers.

Shareholding in sample firms is almost entirely controlled by family members. The presence of non-family shareholders is insignificant, a fact that does not seem to vary with generations. This could indicate that family firms grow, but without raising capital outside the family (see Table IV). However, the question of the concentration of family ownership warrants some thought in order to analyse the differences between generations. On average, for all firms across sub-groups, the percentage of capital in the hands of the main shareholder is around 50 per cent, although the amount varies between generations. We see a statistically significant difference between the

		All firms	First generation	Second generation	Third and subsequent generation
Number of employees	< 50	16.7	24.3	15.6	2.9
	50-100	15.7	27	12.5	8.6
	100-200	16.7	16.2	12.5	22.9
	>200	50.9	32.4	59.4	65.7
Assets ('000s euros)	< 3,000	14	24.2	9.4	3.2
	3,000-6,000	18	24.2	28.1	0
	6,000-12,000	11	6.1	3.1	25.8
	>12,000	57	45.5	59.4	71
Turnover ('000s euros)	< 30,000	47.1	68.6	43.8	24.2
	30,000-60,000	11.5	5.7	15.6	15.2
	60,000-120,000	14.4	8.6	15.6	21.2
	>120,000	26.9	17.1	25	39.4

Table II.
Size year 2000

	All firms	First generation	Second generation	Third and subsequent generation
<i>Family managers</i>				
Mean	2.03	2.41	1.54	2.17
Median	2	2	2	2
Standard Deviation	1.63	1.82	1.2	1.79
<i>Non-family managers</i>				
Mean	6.45	6.23	5.04	8.5*
Median	3	3	3	7
Standard Deviation	10.11	13.04	5.47	10.25

Note: *Mann-Whitney test: statistically significant difference at 1 per cent between third and subsequent generation companies and first and second generation companies

Table III. Presence of family and non-family managers

	Family owners			Non-family owners		
	Number of shareholders	Percentage of ownership	Participation of the main shareholder	Number of shareholders	Percentage of ownership	Participation of the main shareholder
<i>All firms</i>						
Mean	12.71	94.8	49.3	59.3	4.4	2.6
Median	4	100	45	0	0	0
Standard Deviation	28.45	11.65	27.9	585	10.2	7.1
<i>First generation</i>						
Mean	7.73	94.16	59.4	0.69	3.99	2.54
Median	4	100	50	0	0	0
Standard Deviation	16.97	12.08	24.9	1.59	7.77	6.11
<i>Second generation</i>						
Mean	11.6	96.8	48.59**	0.82	3.18	2.12
Median	4	100	40.9	0	0	0
Standard Deviation	23.64	6.6	28.5	1.94	6.63	3.9
<i>Third and subsequent generations</i>						
Mean	20.2	94.5	41.2*	181.7	5.2	2.7
Median	5	100	33	0	0	0
Standard Deviation	42.3	13.1	28.1	1,028.4	12.8	9.4

Notes: *Mann-Whitney test: Statistically significant difference at 1 per cent between first and third and subsequent generation; **Mann-Whitney test: Statistically significant difference at 5 per cent between first and second generation

Table IV. Ownership composition

percentage of capital held by the main shareholder of first generation firms (59.4 per cent) and those of the second generation (48.59 per cent).

There is an even greater difference in the case of third and subsequent generation firms (41 per cent). This may be a sign of the fragmentation of shareholding as the business is transferred from one generation to the next.

The board of directors

Before the analytical discussion governing the composition and functions of the governance mechanism, it is important to note that 75 per cent of the respondents are governed by a board, while 25 per cent are governed by a sole administrator (see Table V). Naturally, the latter group tends to be first generation founder centred firms, where family members play a key role. Although, in 57.9 per cent of first generation firms have boards, they are usually completely dominated by business founders (Dyer, 1986). The operationalization of board increases with generations, as evolution and the greater complexity of firm and family developments make a qualified body more necessary.

Table VI demonstrates the profile of the board of where it emerges that there are not many variations as we consider family firms across generations. In summary, the features of the board are as follows:

- The average number of directors is around six, but this number increases slightly across generations, perhaps in line with the growth of firms and families.
- The average age of the directors is approximately 50 years and their average length of service on the board, 14 years.
- In terms of educational background of directors, 75 per cent of directors have a university degree, although that figure falls across the generational spectrum.
- With respect to the role of internal directors (insiders active in the business management) versus external directors, it emerges that the proportion of internal directors across all the samples is 52 per cent, whilst in second generation firms it remains at just 46.7 per cent.

In fact, the number of internal directors in the first and the third plus generation is very similar as measured by the median. This may mean that family members not involved in the firm management depart as a result of “pruning”. This idea is supported by the fact that the percentage of family directors increases with successive generations, rising from 66.9 per cent in first generation firms to 83.1 per cent in third generation ventures, this is a statistically significant difference that perhaps reflects the presence

All firms First generation Second generation Third and subsequent generation

Board of directors

Number of firms	84	22	28	33
(Per cent)	(75)	(57.9)	(80)	(94.3)

Sole administrator

Number of firms	28	16	7	2
(Per cent)	(25)	(42.1)	(20)	(5.7)

Table V.
Main governance figure

		All Firms	First generation	Second generation	Third and subsequent generation
Number of directors	Mean	6.2	5.6	6.3	6.4
	Median	6	5	6	6
	Standard Deviation	2.3	2.2	2.2	2.4
Average age of directors	Mean	50.6	47.4	51.6	51.6
	Median	49.6	48	50.1	52
	Standard Deviation	7.9	6.2	9.6	7.3
Tenure in the board	Mean	14.8	12.9	16.8	14.6
	Median	14	13.4	18	13.1
	Standard Deviation	7.3	6.7	8.6	6.8
Percentage of directors with university education	Mean	74.8	80.2	76.7	70.8
	Median	75	79.1	76.3	73.2
	Standard Deviation	21.8	17.7	21.7	23.6
Percentage of internal directors	Mean	52	58.1	46.7	52.9
	Median	50	52.7	38	50
	Standard Deviation	28	28.3	29.8	26.8
Family directors	Mean	77.1	66.9	77.5	83.1*
	Median	83.3	66.6	83.3	87.5
	Standard Deviation	23.6	24.9	24.7	20.4
Percentage of family internal directors	Mean	80.1	80.8	75.3	82.7
	Median	100	100	100	100
	Standard Deviation	30	30.9	32.2	28.6
Percentage of family external directors	Mean	65.8	50.5	66.5	73.5**
	Median	91.5	50	80	100
	Standard Deviation	39	39.4	39.1	38.7

Notes: *Mann-Whitney test: statistically significant difference at 5 per cent between first and second generation companies and third and subsequent generation companies; **Mann-Whitney test: statistically significant difference at 10 per cent between first and second generation companies and third and subsequent generation companies

Table VI.
Board size and composition

of large families. On the other hand, the percentage of family internal directors remains constant, since the medians reflect that all internal directors are also family members. The significant increase in the average percentage of external family directors may reflect that, with the passing of generations, especially from the third generation on, more family owners stay outside the firms management but remain involved with its governance.

Board operations: as Table VII indicates the average number of board meetings of all sample firms is seven. The frequency falls between the first and second generations

	All firms	First generation	Second generation	Third and subsequent generation
Mean	7	9.6	5.6	6.5
Median	4	4	4	6
Standard Deviation	7.5	13.6	3.6	3.88
<i>Amount of notice for the meetings</i>				
<i>Less than a week</i>				
Number of firms	36	11	10	15
(Per cent)	(46.8)	(52.4)	(41.7)	(78.4)
<i>Between a week and a month</i>				
Number of firms	35	8	12	14
(Per cent)	(45.5)	(38.1)	(50)	(45.2)
<i>More than a month</i>				
Number of firms	6	2	2	2
(Per cent)	(7.8)	(9.5)	(8.3)	(6.5)

Table VII.
Number of board meetings a year

but rises again with the third and successive generations, but this variation is not statistically significant. Regarding the amount of notice given to attend the meetings, the highest percentage (46.8) of firms gave less than one week's notice, except for second generation companies, where 50 per cent gave between one week and one months notice.

Table VIII outlines the views of sample firms with respect to internal norms and regulation of the board. It emerges that the majority of businesses, irrespective of generation, have no board regulations stipulating requirements (and incompatibilities) for being a board member, chair person or secretary. Those that do have regulations stipulate that to be a director it is necessary to be a shareholder and a family member and to have a university degree. The same regulations often apply to someone who is a chairperson or secretary. Furthermore, there are no established procedures for appraising directors, no limits regarding the length of time serving on the board and no conditions govern their resignation. However, most firms do invite outsiders to board meetings as this may counterbalance the phenomenal predominance of families in terms of ownership and management board control.

In comparison with first generation founder centred firms, those of the second generation appear more rarely to have board chairpersons who also act as MD/CEOs of the business, although this coincidentally increases again in the third and subsequent generations. Again, this fact reinforces the idea that firms in the third and subsequent generations resemble those of the first generation more than they do those of the second. One possible explanation is that in this sample, there has been some "pruning" which brings about a re-emergence of the behavioural patterns typical of the first generation-family firms.

According to the evidence as summarized by Table IX, a substantial proportion of firms, especially those of the third and subsequent generations, do not pay their board members. That is congruent with the internal character of most directors. However, the

		All firms		First generation		Second generation		Third and subsequent generation	
		Yes	No	Yes	No	Yes	No	Yes	No
Board's code of conduct	Number of firms	17	66	3	19	4	23	9	24
	(Per cent)	(20.5)	(79.5)	(13.6)	(86.4)	(14.8)	(85.2)	(27.3)	(72.7)
Thinking of elaborating a code of conduct	Number of firms	26	35	8	10	7	13	11	12
	(Per cent)	(42.6)	(57.4)	(44.4)	(55.6)	(35)	(65)	(47.8)	(52.2)
Requirements for being a director	Number of firms	21	63	3	19	8	20	9	24
	(Per cent)	(25)	(75)	(13.6)	(87.4)	(28.6)	(71.4)	(27.3)	(72.7)
Incompatibilities to be a director	Number of firms	5	79	1	21	2	26	1	32
	(Per cent)	(6)	(94)	(4.5)	(95.5)	(7.1)	(92.9)	(3)	(97)
Is the CEO also the chairperson of the board?	Number of firms	31	53	13	9	7	21	10	23
	(Per cent)	(36.9)	(63.1)	(59.1)	(40.9)	(25)	(75)	(30.3)	(69.7)
Do you invite external advisers to the board meetings?	Number of firms	53	31	14	8	17	11	21	12
	(Per cent)	(63.1)	(36.9)	(63.6)	(36.4)	(60.7)	(39.3)	(63.6)	(36.4)
Established retirement age for directors	Number of firms	11	73	2	20	5	23	3	30
	(Per cent)	(13.1)	(86.9)	(9.1)	(90.9)	(17.9)	(82.1)	(9.1)	(90.9)
Requirements to be chairperson	Number of firms	9	75	3	19	2	26	3	30
	(Per cent)	(10.7)	(89.3)	(13.6)	(86.4)	(7.1)	(92.9)	(9.1)	(90.9)
Requirements to be secretary	Number of firms	4	80	1	21	2	26	1	32
	(Per cent)	(4.8)	(95.2)	(4.5)	(95.5)	(7.1)	(92.9)	(3)	(97)
Established reasons for the resigning of a director	Number of firms	7	76	1	21	1	27	5	27
	(Per cent)	(8.4)	(91.6)	(4.5)	(95.5)	(3.6)	(96.4)	(15.6)	(84.4)
Evaluation system for directors	Number of firms	4	78	1	20	2	25	1	32
	(Per cent)	(4.9)	(95.1)	(4.8)	(95.2)	(7.4)	(92.6)	(3)	(97)
Chairperson's casting vote	Number of firms	34	48	10	12	11	15	12	21
	(Per cent)	(41.5)	(58.5)	(45.5)	(54.5)	(42.3)	(57.7)	(36.4)	(63.6)

Table VIII.
Internal norms of the board

		All firms	First generation	Second generation	Third and subsequent generation
No remuneration	Number of firms	26	6	7	13
	(Per cent)	(31.7)	(27.3)	(25.9)	(40.6)
Fixed remuneration	Number of firms	33	7	13	13
	(Per cent)	(29.5)	(18.4)	(37.1)	(40.6)
Depending on results	Number of firms	21	6	6	8
	(Per cent)	(25.6)	(27.3)	(22.2)	(25)
Attendance fees	Number of firms	19	5	6	8
	(Per cent)	(23.2)	(22.7)	(22.2)	(25)
Stock or stock options	Number of firms	0	0	0	0
	(Per cent)	(0)	(0)	(0)	(0)
For belonging to committees	Number of firms	3	0	2	1
	(Per cent)	(3.7)	(0)	(7.4)	(3.1)
Pensions and insurances	Number of firms	3	2	0	1
	(Per cent)	(3.7)	(9.1)	(0)	(3.1)

Table IX.
Directors' remuneration

proportion of firms that pay fixed payments to board members tend to rise across generations. Interestingly about 25 per cent of all sample firms offer performance based pay to the board, whilst 23 per cent pay attendance fees to their directors. The concept of payment in terms of stock or stock options and in the form of pensions and insurance is not relevant at all, especially in the case of stock.

In terms of operationalisation of special committees, notably about 40 per cent of sample firms have an executive committee (see Table X). The committee meet on an average of 12 times a year. Our results show that the board meets every three months, while the executive committee does so every month. This seems logical given their respective roles. It is difficult to make a generational comparison of the composition of executive committee since only one first generation firm gave that information. However, 36 per cent of the members are non-family, a figure that rises in the second generation, only to fall again in the third.

The questionnaire asked participating family firm chief executive officers to indicate on a 5-point Likert scale (1 = never, 5 = very frequently) how frequently certain topics are discussed by the board of directors. The most important topics are as follows:

- turnover;
- strategy and objectives;
- quality of products and services;
- competitive position;
- capabilities and resources;
- the evolution of the sector;
- human resources;
- fiscal and patrimonial affairs;

		All firms		First generation		Second generation		Third and subsequent generation	
		Yes	No	Yes	No	Yes	No	Yes	No
Number of firms		34	50	7	15	10	18	16	17
(Per cent)		(40.5)	(59.5)	(31.8)	(68.2)	(35.7)	(64.3)	(48.5)	(51.5)
Number of meetings a year	Mean	28.4		18		20.8		14.2	
	Median	12		9		12		11	
	Standard Deviation	65		23		14.9		11	
Number of members	Mean	4.97		4.2		4.7		5.5	
	Median	5		5		4		5	
	Standard Deviation	1.82		1.6		1.7		1.8	
Percentage of non-executive members	Mean	41.4		60 ^a		38		46.3	
	Median	50				50		50	
	Standard Deviation	27.1				31.7		22.1	
Percentage of non-family members	Mean	35.9		33.2		40.9		33.8	
	Median	33		40		50		33	
	Standard Deviation	23.4		31.8		25.6		20.6	

Table X.
Executive committee

Note: ^a Only one case

-
- organisational structure; and
 - the working climate.

In general, the above matters tend to relate more to firm strategy although it stands out that some topics not included in this “important” group are related to the contracting and appraisal of managers and issues governing top management succession. This does not seem congruent with the importance given to the human resources issue. It is also obvious that there is little debate on topics referring to the family, the selection and appraisal of the directors themselves, the distribution of profits, and policies of informing and communicating with shareholders. Very few differences were observed between generations on this issue. Consequently, one can note that the governance bodies hardly deal with family firm relationships in general and the question of succession in particular.

Influence of stakeholders

With reference to the influence of various stakeholders on the business achieving its objectives, we conclude from Table XI that the most influential group is customers; employees, especially in second generation firms and the family itself, especially for the third and subsequent generations. There is little importance attached to environmental issues and the role of social and governmental institutions.

Regarding the presence of regulations governing conduct at shareholder’s meetings, apart from what is provided by common business law (see Table XII), there is tendency for the majority of the firms in the sample to have rules governing the transfer of shares. This practise becomes more prevalent across the generational spectrum; it increases from 47.4 per cent in the first generation to 68.6 per cent in the second and reaches a staggering 82.9 per cent in the third and subsequent generations. It emerges that as more generational firms have undergone the succession process, the more anxious owner-managers become to include share issue restrictions in the company by-laws. This could be an attempt to limit potential conflicts that usually occur when share ownership is fragmented.

Family governance and relationships between the family and business areas

Turning the focus to governance relating to the family and the existence of regulations governing relationships between the family and business areas, as Table XIII indicates, that although most firms do hold some type of family meetings to deal with business related topics, only 32 per cent have established formal mechanisms to that end. Informal meetings become more important amongst more generational family firms probably because first generation families tend to be smaller organisations heavily dependent on all family members. In turn, the presence of formal mechanisms increases with the passing generation.

Family council. With regard to the operationalisation of a family council (see Table XIV), only 25 per cent of the sample have such governance bodies, evidently this became again more prevalent in generational companies. Usually this body acts as a liaison between the family, the board and the management, which is often specified in the family protocol. Additionally, the family council organises family activities and celebrations and of course oversees the selection of members of the board. Regarding the composition of the family council, most respondents tend to include a member of

		All firms	First generation	Second generation	Third and subsequent generation
Shareholders	Mean	3.7	3.7	3.6	3.9
	Median	4	4	4	4
	Standard Deviation	1.3	1.4	1.2	1.1
	Mean	3.95	3.8	4.2	3.9
Employees	Median	4	4	4	4
	Standard Deviation	1	1.2	0.8	1.1
	Mean	3	2.9	2.8	3.3
Family	Median	3	3	3	3
	Standard Deviation	1.3	1.4	1.2	1.2
	Mean	4.1	4.1	4.2	4
Customers	Median	4	4	4	4
	Standard Deviation	1	1	0.9	1.1
	Mean	3.12	2.9	3.3	3.1
Suppliers	Median	3	3	3	3
	Standard Deviation	1.1	1.2	0.9	1.1
	Mean	1.8	1.8	1.8	1.9
Environment defenders	Median	2	1	2	2
	Standard Deviation	0.9	0.9	0.9	1.1
	Mean	1.8	1.8	1.9	1.6
Social institutions	Median	2	1	2	2
	Standard Deviation	0.9	0.9	0.9	0.7
	Mean	2	2.1	2.2	1.9
Governmental institutions	Median	2	2	2	2
	Standard Deviation	1.2	1.3	1.2	1.1
	Mean				

Table XI.
Influence of different stakeholders on the firms' goal achievement

Note: Five-point Likert scale (1 = never, 5 = very frequently)

the board but to a lesser extend a member of the management team. Such representatives probably play the necessary role of liaison between the governance bodies.

According to Table XV, generally speaking, business families do not seem to have any formal control over the access of family members to the board, since most of them have not established requisites or training processes for that. However, the role of requisites increase with each generation, but not the training process, whose presence rises with the second generation only to fall again with the third and subsequent generations. When families establish some sort of limit, they frequently refer to a balance between family branches. With respect to training, the families opt for a university education and family business centred training activities. Of the families that had not established these requirements, 43 per cent of those of the first generation,

and 75 per cent of the second generation said that they plan to include such requisites in the future. Moreover, 62 per cent of the first generation firms stated that they are actively considering future training plans, while 80 per cent of the other generations plan to do so. It is axiomatic that sample families did not stand out for their proactive planning for succession and for the preparation of family protocols, although the adoption of both mechanisms tend to increase with the passing of the generations. However, 68.5 per cent of families expressed their intention of drawing up a protocol and 40 per cent of those with no succession plan said that they being drawn up.

Conflict resolution. In line with the above trends, arguably families tend to lack systems to deal with conflict between their members. As Table XVI reveals, the main source of conflict originates in differences between family branches, especially in second generation firms, closely followed by conflicts between generations. In fact, the latter is the main source of conflict in first generation ventures. It is interesting to point out that the importance of such conflicts significantly decreases from the second generation onwards. Once again, this may reflect the fact that families undertake “pruning” in order to concentrate power in active family members.

Conclusions and suggestions for future research

Today, corporate governance is a research subject that is fundamental to many areas related to business management, such as strategy, organisation and finance. Various studies aimed at analysing ownership structures in different countries seem to agree that the business reality in many Western countries is highly related to the concentration of ownership in the hands of families. Family firms, by their very nature, show peculiar behavioural characteristics, which affect the characteristics of their

		All firms		First generation		Second generation		Third and subsequent generation	
		Yes	No	Yes	No	Yes	No	Yes	No
Restrictions to stock transmission	Number of firms (Per cent)	73 (65.2)	39 (34.8)	18 (47.4)	20 (52.6)	24 (68.6)	11 (31.4)	29 (82.9)	6 (17.1)
Qualified majorities	Number of firms (Per cent)	21 (18.8)	91 (81.3)	4 (10.5)	34 (89.5)	7 (20)	28 (80)	10 (28.6)	25 (71.4)
Limits to shareholders' representation	Number of firms (Per cent)	7 (6.3)	104 (93.7)	1 (2.7)	36 (97.3)	2 (5.7)	33 (94.3)	4 (11.4)	31 (88.6)

Table XII.
Norms related to shareholders' meeting

		All firms		First generation		Second generation		Third and subsequent generation	
		Yes	No	Yes	No	Yes	No	Yes	No
Meetings to treat business issues	Number of firms (Per cent)	67 (60.4)	44 (39.6)	19 (50)	19 (50)	24 (68.6)	11 (31.4)	21 (60)	14 (40)
Formal mechanism to treat family-business relationships	Number of firms (Per cent)	33 (30.3)	76 (69.7)	8 (21.6)	29 (78.4)	11 (31.4)	23 (67.6)	13 (38.2)	21 (61.8)

Table XIII.
Family-business relationships

		All firms		First generation		Second generation		Third and subsequent generation	
		Yes	No	Yes	No	Yes	No	Yes	No
Number of firms		29	83	8	30	11	24	10	25
(Per cent)		(25.9)	(74.1)	(21.1)	(78.9)	(31.4)	(68.6)	(28.6)	(71.4)
<i>Functions of family council</i>									
Liaison between the family, the board and the management of the company	Number of firms (Per cent)	26 (89.7)	3 (10.3)	8 (100)		8 (72.7)	3 (27.3)	10 (100)	
Suggesting and discussing board members	Number of firms (Per cent)	17 (58.6)	12 (41.4)	7 (87.5)	1 (12.5)	6 (54.5)	5 (45.5)	4 (40)	6 (60)
Drawing up and reviewing the family protocol	Number of firms (Per cent)	24 (88.9)	3 (11.1)	7 (87.5)		10 (90.9)		7 (70)	3 (30)
Organizing family activities and celebrations	Number of firms (Per cent)	23 (85.2)	4 (14.8)	6 (85.7)	1 (14.3)	9 (90)	1 (10)	8 (80)	2 (20)
<i>Family council composition</i>									
Does any member of the board belong to the family council?	Number of firms (Per cent)	27 (93.1)	2 (6.9)	6 (75)	2 (25)	11 (100)		10 (100)	
Does any member of the management team belong to the family council?	Number of firms (Per cent)	16 (57.1)	12 (42.9)	6 (75)	2 (25)	4 (40)	6 (60)	6 (60)	4 (40)

Table XIV.
Family council

		All firms		First generation		Second generation		Third and subsequent generation	
		Yes	No	Yes	No	Yes	No	Yes	No
Requirement for accessing to the board	Number of firms (Per cent)	14 (14.1)	85 (85.9)	3 (8.8)	31 (91.2)	5 (16.7)	25 (83.3)	6 (19.4)	25 (80.6)
Training of family members as directors	Number of firms (Per cent)	15 (14.4)	89 (85.6)	4 (11.1)	32 (88.9)	6 (18.2)	27 (81.8)	5 (16.1)	26 (83.9)
<i>Succession and family protocol</i>									
Formal succession plan?	Number of firms (Per cent)	29 (26.6)	80 (73.4)	10 (26.3)	28 (73.7)	9 (26.5)	25 (73.5)	10 (30.3)	23 (69.7)
Family protocol?	Number of firms (Per cent)	24 (21.8)	86 (78.2)	6 (15.8)	32 (84.2)	8 (23.5)	26 (76.5)	9 (26.5)	25 (73.5)

Table XV.
Family, board of directors and succession

		All firms		First generation		Second generation		Third and subsequent generation	
		Yes	No	Yes	No	Yes	No	Yes	No
System for solving family conflicts?	Number of firms (Per cent)	21 (19.8)	85 (80.2)	6 (16.7)	30 (83.3)	9 (27.3)	24 (72.7)	5 (15.2)	28 (84.8)
<i>Main sources of conflict</i>									
Between generations	Number of firms (Per cent)	22 (26.5)		12 (42.9)		4 (16.7)		6 (22.2)	
Between family branches	Number of firms (Per cent)	23 (27.7)		5 (17.9)		11 (45.8)		7 (25.9)	
External family members	Number of firms (Per cent)	11 (13.3)		5 (17.9)		1 (4.2)		3 (11.1)	
All aforementioned problems	Number of firms (Per cent)	7 (8.4)		2 (7.1)		3 (12.5)		2 (7.4)	
Other	Number of firms (Per cent)	20 (24.1)		4 (14.3)		5 (20.8)		9 (33.3)	

Table XVI.
Family conflict

governance systems. These, in turn, should evolve in line with the typical changes in the complex firm/family system that prevails in this type of business organisation.

The aim of our study was to analyse the governance system in family businesses in Spain and the extent to which they follow the recommendations for good governance in both the business and family areas. Towards this end, this explorative investigation described the firms in our sample in terms of family involvement in management, ownership and the board, and also in terms of the relationship between the board and the different stakeholders.

The first aspect that we must point out is the “absolute dominance” of the leading family in the ownership, control and management of the firms. This is congruent with the widespread view that family firms tend to enjoy control. It was evident that there is a high concentration of ownership in the hands of the family, among few members of the family, and mostly among one generation only. This is line with similar studies in other countries, such as Corbetta and Montemerlo (1999) who found that more than two-thirds of their sample of Italian family businesses totally owned by families were often characterised by quite a small number of shareholders (an average of 3.1).

The average size of the board of directors is around six, compared to four in Italy and four in the USA (Corbetta and Montemerlo, 1999), approximately half of whom are managers and two-thirds family members. The small size of the boards could explain the low presence of committees apart from the executive one. The fact that about two-thirds of the directors are family members, with that proportion increasing over the generations, could mean that family owners, although leaving the management board remain involved in its governance. Generally, there are few formal rules governing the actions or functioning of the boards, which is in line with the scant development of the corporate governance system. Furthermore, the directors of 31 per cent of the companies receive no remuneration. In the cases where they are paid, the use of a fixed payment system is common and this method increases with the generations.

The topics that mostly occupy the board are related to strategy and management. It should be noted that the matters referring to human resources, especially succession issues, gets less attention. In that respect, the firms state that they have the intention of tackling aspects linked to improvements in management, especially in these particular areas. The need to include external directors was also frequently mentioned by the firms in our sample. With reference to family governance bodies, it transpired that this is an area that has hardly been developed. However a considerable number of firms have expressed their intention of concentrating efforts in that direction, on developing family councils, protocols and succession plans.

The empirical evidence suggests that third and subsequent generation companies are more similar to first generation companies than to second generation ones in terms of their perception about strategic governance practices. More specifically, similarities exist with respect to the percentage of non-executive members of the board, certain aspects of the board's remuneration, and the policy of providing stakeholders with information, etc. Notably, the third and subsequent generation firms attach less importance to the differences between family branches than those of the second generation, an attitude which could prove symptomatic of "pruning" as a survival mechanism.

It is clear that overall, respondent firms are far from applying the codes of best practice regarding corporate governance and this lead us to suggest that maybe these recommendations need to be adapted to the complex family firm organization system. In fact, the "pruning" reflects the tendency of firms that reach the third generation to re-concentrate ownership structures and adopt a more first generation model. Tentatively, this could be explained in terms of stewardship theory in the sense that firms must find some advantage in ownership concentration, and consequently in having power in the hands of a few individuals. Often entrepreneurial firms are usually operated with a considerable degree of informality and the firm's culture is transmitted by direct contact between the founder and personnel, so everybody knows what the firm wants to achieve and how (Flamholtz, 1986). In first generation or founder-centred entrepreneurial firms, family values and goals of the firm are intimately intertwined with that of the entrepreneur and his/her family (Dyer, 1986). These firms do not necessarily need mechanisms to avoid conflicts of interest, because of the coincidence of family and firm objectives and the motivations related to the owner family's general interest that guide the family managers.

However, as the organisation grows, this informal socialisation process becomes more attenuated and less effective so the firm must develop a more conscious and formal method of managing and transmitting the corporate culture and goals throughout the organisation (Flamholtz, 1986). In the entrepreneurial family firm this developmental process not only is affected by the evolution of the firm but also by the evolution of the family. So, the growing family, as the growing firm, needs a more professionalized and complex system of governance to manage the divergent interests of the increasing number of participants in both the firm and the family systems. If this is not possible, the families may prefer the "pruning" as a way of avoiding conflicts, and possibly the opening up to outsiders and professional methodologies. This could explain why the results demonstrate that importance of the conflicts related to differences between family branches significantly decreases from the second generation.

It is not always that that reproduction of initial patterns is possible, this could restrain firms' growth potential. This is when agency theory comes into play to support the need for families to have governance mechanisms in order to strengthen trust between an active manager and passive family shareholders and reduce the possibility of opportunism. Future studies will allow us to analyse the effect that the development of such governance mechanisms may have on the family business survival and development.

The main limitation of this explorative study is that it offers insights and trends in a more descriptive manner. It is our intention that future research will aim for the formulation and testing of key hypotheses pertinent to key governance issues and their implication on business performance after controlling for the impact of certain covariates such as size of business and ownership regime. Moreover, there is scope to compare the experience of family firms with that of their non-family counterparts. Finally, since our methodology did not allow for an analysis of the evolution in the governance systems through generations, hopefully, future research attempts can adopt a more longitudinal approach to the analysis of governance dynamics and the relationships between the business board and family stakeholders.

Note

1. This document has been given various names, including family constitution, family strategic plan or family creed (Neubauer and Lank, 1998).

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