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Family Firm Heterogeneity and Governance: A Configuration Approach

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Family involvement in ownership and management of business varies significantly within family firms. Although the literature recognizes the diversity in family firms, it remains unclear what governance mechanisms are most appropriate to achieve prioritized performance goals of different types of family firms. By combining two established categorizations of family involvement in firm ownership and management, nine types of family firms are identified. Drawing on the configuration approach, we theorize the governance mechanisms likely to most efficiently address the incentive systems, authority relations, and norms of legitimization in each of these types of family firms.

Introduction

Creation of efficient governance is a central task in all organizations. This task involves building and sustaining a set of structures and processes that enable owners to prioritize, articulate, and achieve their shared objectives amidst the realities of changing external and internal environment (Gedajlovic, Lubaktin, and Schulze 2004; Lansberg 1999). The literature is clear that the governance needs of family firms are quite different from those of nonfamily enterprises because of a combination of multiplicity of pursued goals by these firms and the evolving role of family in business (e.g., Bettinelli 2011; Davis 2008). Through recent comprehensive reviews on family business governance (Gersick and Feliu 2014; Goel, Jussila, and Ikäheimonen 2014), it becomes evident that significant efforts have been devoted to advance practice and theory on distinctions between family and nonfamily governance. Progress has been made by employing different theoretical perspectives such as: agency theory (e.g., Schulze, Lubatkin, and Dino 2003; Schulze et al. 2001), stewardship theory (e.g., Corbetta and Salvato 2004b; Miller and Le Breton-Miller 2006b), resource-based view (e.g., Sirmon and Hitt 2003), and socioemotional wealth (e.g., Gómez-Mejía et al. 2011). However, as observed in these reviews, the literature tends to downplay the heterogeneity within family firms and consequently to understand the most appropriate governance bodies in different types of family enterprises. A more nuanced approach is needed. This paper is an attempt to tackle this pending yet important task.

We build on previous research that suggests that varying levels of family involvement in

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management and in ownership of a firm impact the firm's governance needs and performance goals (e.g., Melin and Nordqvist 2007; Sharma and Nordqvist 2013). An underlying assumption in our approach is that fit between a particular combination of family involvement in business and the adopted governance bodies have positive implications for the prioritized performance objectives on financial and/or nonfinancial dimensions (Sharma and Nordqvist 2008). Research undertaken from the agency and stewardship perspectives has been helpful to understand the role of incentive systems in the effectiveness of chosen governance mechanisms. This paper attempts to extend this discussion by incorporating the role of authority structures and the prevailing norms of accountability in governance of different types of family firms (Carney and Gedajlovic 2003; Goel, Jussila, and Ikäheimonen 2014).

Corporate governance scholars have observed that firms have an array of governance mechanisms to choose from (e.g., Daily, Dalton, and Cannella 2003; Dalton et al. 1998), Configuration theorists remind us that coherence between organizational characteristics and adopted structures and systems enables performance advantages (e.g., Meyer, Tsui, and Hinings 1993). Family business scholars have observed that a well-configured balance between priorities (e.g., controlling family's ideology) and practices (such as pursued strategies or firm culture) distinguishes high from low-performing family firms (e.g., Miller and Le-Breton Miller, 2005; Ward 1987). Drawing inspiration from this research, we identify nine broad types of family firms based on the extent and nature of family involvement in ownership and management of a firm. Then, relying on configurational approach, we theorize the different governance needs of each category of firm. Looking at the array of governance structures and mechanisms that have been developed in the field over the past 30 years or so (Gersick and Feliu 2014), we try to decipher *what* internal governance systems are likely to most effectively enable the controlling owners to deal with issues of incentive alignment between owners and managers of a firm, while incorporating the prevailing norms and authority structures of the controlling family.

This paper responds to the calls in the literature to focus on building an understanding of the causes and consequences of family firm heterogeneity (e.g., Chua et al. 2012; Gersick and Feliu 2014; Goel, Jussila, and Ikäheimonen 2014). We theorize how family firm heterogeneity based on different levels of family involvement in ownership and management influences the most appropriate governance choices that can help to drive strategic development and performance. By adopting a configuration approach and relying on the notion of governance as embodying not just incentives but also authority relations and norms of legitimacy, we contribute by adding nuances to the scholarly conversations on family firm governance.

The next section introduces our usage of the configuration approach. As our core interest lies in understanding what governance mechanisms are useful for different types of family firms; the subsequent section briefly discusses the governance mechanisms that have been employed in family firms. Thereafter, we elaborate on the relationship between the core of our configuration—the relationship between nine types of family firms based on family involvement in ownership and management and governance mechanisms most likely to be the best fit for each type. The practical and research implications are shared in the concluding section.

Configuration Approach

Meyer, Tsui, and Hinings (1993, p. 1175) define configuration as "any multidimensional constellation of conceptually distinct characteristics that commonly occur together." Each "ideal type" of constellation is a gestalt of multiple, interlinked, and mutually reinforcing organizational and structural characteristics that fit with each other and enable the achievement of preferred performance objectives of a firm (e.g., Greenwood and Hinings 1996; Miller and Friesen 1984). In addition to the critical role of fit between parts, the configuration perspective is based on two core assumptions: (1) the idea of equifinality, that is, different gestalts can be equally effective, and (2) that though theoretically, there can be an infinite number of combinations of structural and organizational factors. Practically, these characteristics have a tendency to fall into a few coherent patterns that change only intermittently. In the words of Meyer, Tsui, and Hinings (1993, p.1176), "the upshot is that just a fraction of the theoretically conceivable configurations are viable and apt to be observed empirically." Miller (1996) notes the distinction between and the complementary nature of two approaches to identify configurations—conceptually derived typologies and empirically based taxonomies. Taking a holistic stance, in addition to developing theoretical typologies, configuration theorists often design empirical studies to identify multiple ideal types of organization that maximize fit and effectiveness over time (e.g., Doty, Glick, and Huber 1993; Meyer, Tsui, and Hinings 1993).

Over the last few years, family business researchers have used both these approaches to distinguish between family firm types and understand the consequences of an internal *fit* between organizational and structural characteristics. Pioneering family business scholars like Dyer Jr. (1986) and Ward (1987) observed family firms were of different types based on their prevailing culture or ideology. More recently, Lubatkin, Durand, and Ling (2007) use the idea of fit to theorize the correspondence between various types of parental altruism and governance efficiencies. Parallel to this conceptual or theoretical work flows the empirical stream of works using configuration approach. For example, Miller and Le-Breton Miller (2005) observe that in comparison with others firms, those with coherence between their driving mission and adopted strategies enjoy significant competitive advantages over generations of industry and leadership life cycles. Later, these scholars found that also in smaller family firms, the extent of alignment between desired objectives and resource allocation decisions distinguishes better performers from others (Miller and Le Breton-Miller, 2006a). Similarly, Chirico et al. (2011) found that a configuration between entrepreneurial orientation, generational involvement, and participative strategy is a pathway to highest performance outcomes. Finally, focusing on three types of family firms proposed by Ward (1987)—family first, business first, and family enterprise first, Basco and Pérez Rodríguez's (2011) study reveals that family firms can achieve successful business results by using a combination of family and business orientations in their decision-making.

This paper is another step in the theoretical research stream using the idea of internal fit in organizational and structural features of a family enterprise. The notion of configuration is used to theorize what governance mechanisms are likely to lead to high financial or nonfinancial performance in firms with varied levels of family involvement in ownership and in management. The next section outlines our perspective on governance of family firms and discusses the main mechanisms available to govern these firms.

Family Firm Governance

Family firms have a theoretically distinct form of governance largely due to the alignment of management, ownership, and control (e.g., Goel, Jussila, and Ikäheimonen 2014; Schulze et al. 2001). Family business governance researchers have largely focused on understanding the distinctions between family and nonfamily firms. For example, comparing family firms with two other governance types—managerial and alliance—Carney (2005) suggests that family firms are more conducive to three organizational propensities of personalism (few internal or external constraints), particularism (idiosyncratic behavior), and parsimony (prudence with money). In turn, these propensities influence the extent to which a family firm is competitive in its environment.

In terms of theoretical perspective adopted, agency theory has by far dominated thinking on governance of family firms (Goel, Jussila, and Ikäheimonen 2014). In comparing family and nonfamily firms, governance research has dealt primarily with governance as only a matter of incentives structures (Bammens, Voodeckers, and Van Gils 2011; Chua et al. 2012). By underplaying the role of sociopolitical embeddedness of owners and managers, scholars have observed that this tendency "seriously under-specifies what organizations and their actors are about" (Gedajlovic, Lubaktin, and Schulze 2004, p. 901). Accordingly, it has been suggested that governance deals not just with incentive structures that enable executives "to pursue options that they perceive as 'first best' in terms of their personal (subjective) utility" but also with norms of legitimacy and authority relations, which apply to both individuals and groups of actors/stakeholders who participate in the organization[1] (Carney and Gedajlovic 2003; Gedajlovic, Lubaktin, and Schulze 2004, p. 902). Norms of legitimacy refer to the rules that guide the allocation of

[1]We thank an anonymous reviewer for this comment.

resources and accountability within an organization, whereas authority refers to the distribution of power among people and positions in an organization.

Embracing the three elements of authority, legitimacy, and incentives as the core of governance indicates that an organization's value-creating and destroying attributes can be seen as embedded in its structures and policies. Conceptually, clear authority relations within an organization support efficiency by minimizing conflicts and making the internal rules of the game more explicit, both of which should support fast decision-making. Well-defined norms of legitimacy should also assist in making an organization efficient by lowering opportunity costs of resources and information. Finally, clear incentive systems help to minimize potential divergent interests and thus agency costs between principal and agent, or between principal and principal (Chrisman, Chua, and Litz 2004; Chua, Steier, and Chrisman 2006).

However, family firms are heterogeneous as they differ in terms of the extent and mode of family involvement in ownership and management (e.g., Melin and Nordqvist 2007). For effective governance, organizations need to develop structures and processes that routinely help to understand the needs and concerns of different internal and external stakeholders (e.g., Gersick and Feliu 2014; Sharma and Nordqvist 2008). We posit that a critical task to achieve the prioritized financial and nonfinancial performance goals of a family firm is to develop a governance system appropriate for a firm based on the extent and nature of family and business overlap at a time. The nature of family involvement in firm's ownership and management is likely to influence the incentives, authority structure, and norms of legitimacy. As family involvement in ownership and management differs between family firms, and may change over time, the best-fit governance characteristics can be expected to vary across family firms at a point in time and in a firm over time. Next, we briefly discuss the most frequently used governance bodies in family firms.

Family Business Governance Bodies

In their work on the relationship of governance mechanisms to performance, Coles, McWilliams, and Sen (2001, p. 23) conclude that "the most critical issue still to examine is the ability of firms to choose among a number of different governance bodies to create the appropriate structure for that firm, given the environment in which it operates." Though these authors focus on external environmental fit of governance mechanisms, we argue that these mechanisms and the internal fit between extent of family involvement in business and the governance bodies likely to lead to the fulfillment of desired performance objectives are equally important.

The most frequently mentioned governance bodies in the literature are those associated with controlling family, owners, and managers (e.g., Hoy and Sharma 2010). Efforts have been made to understand the role and characteristics of governance structures such as family meeting, family council, shareholder's assembly, board of directors, and top management teams (TMTs) (for recent comprehensive reviews, see Gersick and Feliu, 2014 and Goel, Jussila, and Ikäheimonen 2014). In what follows, we briefly discuss these structures that are used in our configuration later in this paper.

The *family meeting* is an informal get-together that may occur more or less frequently depending on the age, size and generations involved in the firm, and the related ownership structure (Neubauer and Lank 1998). As such, it is the simplest and most common form of governance that helps busy families to stay connected and agile. The *family council* is a formal type of family meeting to discuss issues in relation to the governance of the family and its relationship to the firm. The council is usually established once the family and the firm reach a critical size.

The shareholders' assembly is a body that deals with issues required by the law. Examples include appointing or removing board members and chief executive officer (CEO). Typically, a shareholders' meeting is held once a year although its formality and activities vary among family firms. The *board of directors* is a central governance body for the business and perhaps the most researched of all governance structures. The three most common roles attributed to the board are strategic or service role, reviewing and evaluating ideas of the top management; a monitoring role including performance evaluation of the CEO and watching over the interests of the shareholders and other key stakeholders; and a resource-dependence role, helping the top management to link to and/or acquire crucial resources and gain legitimacy (see Bammens, Voodeckers, and Van Gils 2011; Zahra and Pearce II, 1989). In family firms, the close relation between the ownership and a family may create other roles for the board such as supporting the generational succession (e.g., Corbetta and Salvato 2004a). Younger and smaller family firms have been found to voluntarily use a less formal version of this governance mechanism—*advisory board*—to reap the insight, resource, and accountability advantages accorded by a formal board of advisors while avoiding the formalities and legalities such as the directors' insurance and compensation (Gersick and Feliu 2014; Ward 1987). The *TMT* is a body that meets regularly to discuss the developments and strategies to achieve the objectives of the firm. In family firms with a mix of family and nonfamily managers, this structure is especially significant as family members are more likely to meet in social gatherings. The presence of family members in the TMT (and/or in the position as CEO) reflects the family involvement in the daily life of a family firm. Anderson and Reeb (2003) remark that this allows the family to more directly align the firm's interests with those of the owners, which in turn have impact on governance.

Although the reviews by Gersick and Feliu (2014) and Goel, Jussila, and Ikäheimonen (2014) show that one or more of these governance bodies have been found useful in family firms, it is not clear which governance bodies are more suitable to achieve performance goals in firms with varied levels of family involvement in business. Furthermore, it remains unclear how the governance mechanisms change as the nature of involvement of the controlling family and/or the business itself changes over time. In fact, the family firm governance research is built on two inherent limiting assumptions: (1) of uniformity, that is, the best-fit governance mechanisms for all family firms are the same and (2) of an enduring fit of governance mechanisms over the life cycles of a firm (Corbetta and Salvato 2004a; Melin and Nordqvist 2007). Though prescriptions such as the positive impact of a "board of directors with outsiders" or "family councils" prevail in the practitioner literature, and scholarly efforts are underway to empirically test their validity (e.g., Bettinelli 2011), an understanding of inherent variance in family firms has prompted researchers to question whether the same governance bodies are useful in all family firms (Sharma and Nordqvist 2008). The core thesis of this paper is that the most appropriate governance bodies vary based on the extent and nature of family involvement in ownership and management of a firm. This is the focus of the next section.

Family Involvement in Business

A distinguishing feature of family firms from other organizational forms is the overlap between the family and business systems leading to their hybrid identity (Davis and Tagiuri 1989; Sundaramurthy and Kreiner 2008). A desire to understand the opportunities and challenges brought about by the hybrid identity of family firms has lead researchers to develop models and frameworks to capture the varying degrees of family involvement in firm's ownership and management. One such earlier effort led to the three-circle model that has met with acceptance as it helps distinguish family from nonfamily firms and to identify different internal stakeholders in family firms (Davis 1982). Though this model is static and overemphasizes the similarities between family firms while underplaying the differences (Habbershon, Williams, and MacMillan 2003; Melin and Nordqvist 2007), its continuing appeal is evident. Sharma and Nordqvist (2008) review the changes in the model over time. For instance, Gersick et al.'s (1997) "developmental model" captures the evolution in ownership, management, and family as the business evolves over time (Schulze, Lubatkin, and Dino 2003). Most recently, Le-Breton Miller and Miller (2013) employ it to theorize the fit between goals, priorities, board characteristics, and firm survival. Based on this research stream, the most common patterns of family involvement in the ownership and management of a firm are discussed in what follows.

Family Involvement in Ownership

Ownership in family firms tends to get dispersed in an episodic and stepwise mode over time as each generation of family gets involved with the firm. Gersick et al. (1997) described three basic forms of family ownership of business—controlling owner, sibling partnership, and cousin consortium. Lansberg (1999) further argued that family firms may vary in terms of whether over time they choose to recycle through the same ownership form, move to the next form, or revert back to the previous form. Although ownership may also be dispersed among family and nonfamily members in private or publicly traded firms (Schulze, Lubatkin, and Dino 2003), in this paper, we retain our focus on the three family ownership forms—controlling ownership, sibling partnership, and cousin consortium—suggested by Gersick et al. (1997). The choice and consequences of each ownership form has distinct features that are impacted by and influence the incentive structures, norms of authority, and legitimacy prevailing in a family firm. In turn, these features create a unique context in which certain governance mechanisms are likely to be more effective than others to achieve the prioritized goals of a firm (Sharma and Nordqvist 2013).

In the *controlling ownership* form, the coupling of ownership and control in the firm gives rise to specific organizational propensities (Carney 2005). The prevailing norms of authority favor "one sibling over the others" as he or she is the controlling owner and is granted the legitimate right to guide the resource allocation and accountability decisions in an enterprise. This ownership stage is assumed in the traditional notion of family business's agency theory-based treatment (e.g., Jensen and Meckling 1976), though in more successful firms the controlling owner takes on the role of a steward moving the enterprise from one generation to the next (e.g., Miller and Le-Breton Miller, 2005).

In the *sibling partnership* form, siblings share the ownership of the firm. Typically, in this stage, the second generation joins the business and the controlling ownership is held within the nuclear family of founder or his or her descendants. The number of family owners in the business depends on the size of the family, the guiding ideology of the firm (family first, business first, or family enterprise first), and the operating norms of intra and intergenerational authority and legitimacy (cf. Sharma and Manikutty 2005; Ward 1987). Firms with a family-first orientation are more likely to follow the norms of equality in sibling partnerships, whereas those following business-first are likely to rely on market competence-based factors to decide which sibling/s are granted authority and legitimacy to control the firm as owners (Ward 1987).

In controlling families with egalitarian norms wherein all siblings are considered equal, ownership is more likely to be dispersed evenly among siblings leading to all sibling partners enjoying equal authority and legitimacy in resource allocation decisions (Sharma and Manikutty 2005; Todd 1985). On the other hand, in families wherein one or a few siblings are considered "more equal" than others, these chosen ones may receive preferential shares and responsibilities. Regarding intergeneration ownership issues, if the prevailing norms accord higher authority to the senior generation based on its higher positioning in the family system, the shares may reside with this generation for much longer than in firms where adult family members of senior and junior generation are considered equals. Furthermore, the legitimate right of resource allocation decisions may stay with the senior generation despite the transfer of shares to the next generation (cf. Sharma and Manikutty 2005).

The *cousin consortium* is a dispersed ownership structure typically found in later generations of family firm ownership (e.g., Magretta 1998). Typically, in cousin consortium stage, there are a large number of owners. Familial norms of equality are likely to evolve into a cousin consortium, whereas forms of inequality are likely to cycle back to the controlling owner stage. Whether non-blood relatives such as in-laws or adopted family qualify for share ownership will likely depend on the prevailing family boundaries and intergenerational norms (Santiago 2011). Under the most inclusive and open family systems, several different categories of owners may coexist in this organizational form thereby significantly influencing the governance mechanisms necessary to ensure a fair voice to different types of owners (Gersick and Feliu 2014).

Family Involvement in Management

The management dimension elaborated by Gersick et al. (1997) uses three stages of a business: start-up, extension/formalization, and maturity. At each life cycle stage, varied levels of family involvement in management are possible. Our focus is on management roles that have a significant influence on the governance of a firm. Typically, family involvement in management becomes less intense and nonfamily involvement in management more common as family businesses move from the start-up phase toward expansion and maturation (Salvato, Minichilli, and Piccarreta 2012). Davis (2008) observes that such distancing of family from management of the firm can occur when family's identification with the business is low. Size matters as well. Small firms tend to have higher family involvement in management (Carney 2005).

Firms fully owned and lead by a founding family member CEO are the most prevalent of all family firm types. However, with passage of time and growth of family and of business, many family firms seek nonfamily members to lead the family business (e.g., Hall and Nordqvist 2008). Thus, in family firms, two key dimensions influence the nature of incentive systems and thereby the best-fit governance mechanisms for a firm. These are (1) whether the CEO of the firm is a family or a nonfamily member and (2) what proportion of the TMT is family versus nonfamily members (Ensley and Pearson 2005; Minichilli, Corbetta, and MacMillan 2010).

Based on family involvement in business, Davis (2008) distinguished between *family operator firms*, *family supervisor firms*, and *family investor firms*. Family involvement and the impact of familial norms of authority and legitimacy are most evident in family-operated firms wherein the family CEO dominates management and runs the day-to-day operations. In family supervisor firms, though family members retain oversight of the firm, their involvement in the TMT is more diluted than in the family-operated firms with a large presence of nonfamily members. Family investor firms treat the enterprise as an investment (Habbershon and Pistrui 2002). Family members take on the role of asset managers, often focused on buying and selling companies rather than running any specific firm. The impact of familial norms of authority and legitimacy is likely to be minimal in these firms. In turn, the most appropriate governance mechanisms for such firms may differ from the previous two categories and a nonfamily CEO is often appointed.

In short, we posit that the nature of family involvement in ownership and management of a firm is influenced by, and in turn reinforces, the prevailing norms of authority and legitimacy in an enterprise. Moreover, this involvement determines the potency of incentive alignment needed in a firm. Together, these organizational and structural characteristics determine the governance mechanisms better suited to achieve the prioritized performance objectives.

Configurations of Family Involvement: Implications for Governance

The nature and extent of family involvement in business drastically change the features of a family firm and its ability to make prompt strategic decisions to reach the desired performance goals (Sharma and Nordqvist 2013). To this end, appropriate governance bodies must be established to overcome the potential disadvantages and support the advantages of each configuration. Integrating the considerations previously given with regard to family involvement in ownership and management, we derive a typology of configurations of family involvement in the business presented in Table 1. This typology serves as a starting point to understand the appropriate governance mechanisms for each type of family firms and the role played by the prevailing norms of authority, legitimacy, and incentive systems in the governance choices.

Cell 1—Controlling Owner-Family Operator

In family businesses with unification of family ownership and management, there are strong incentives for efficiency in operations and parsimony in the use of capital because of the lack of sharing of control (Carney and Gedajlovic 2003) and the fact that the owner–manager makes strategic decisions with his or her personal wealth as reference point (Carney 2005). On the other hand, there may be poor incentives to grow the firm if this would lead to loss of family control (Gómez-Mejía et al. 2007). Authority is centralized and personalized in one family member who enjoys significant discretion to decide the extent to which he or she wants to share authority with other family or nonfamily members. Regarding norms of legitimacy, owner–manager is free from the pressures of outside stakeholders and monitors who may demand accountability, transparency, and disclosure of information (Carney 2005).

The family business in Cell 1 does not use or need formalized governance mechanisms to avoid the burden on time and resources of the owner–operator (Greiner 1972). Market results are the control signals. The personification of the business means that the owner–manager has the authority, legitimacy, and incentives to run the firm as he or she pleases. There is no immediate or formalized need of elaborated

Table 1
Configurations of Family Involvement in Ownership and Management

		Family Involvement in Ownership		
		Controlling Owner	**Sibling Partnership**	**Cousin Consortium**
Family Involvement in Management	Family Operator/s	**1** **Controlling Owner-Family Operator** *Advisory Board; Family Meetings*	**2** **Sibling Partners-Family Operator/s** *Board of Directors/Advisory Board; Shareholders' Assembly; Family Meetings*	**3** **Cousin Consortium-Family Operator/s** *Board of Directors; Shareholders' Assembly; Family Council*
	Family Supervisor	**4** **Controlling Owner-Family Supervisor** *Board of Directors; Top Management Team; Family Meetings*	**5** **Sibling Partners-Family Supervisor** *Board of Directors (with External Members); Top Management Team; Shareholders' Assembly; Family Meetings (with a Facilitator)*	**6** **Cousin Consortium-Family Supervisor** *Board of Directors (with External Members); Top Management Team; Shareholders Assembly; Family Council*
	Family Investor	**7** **Controlling Owner-Family Investor** *Board of Directors; Top Management Team; Family Meetings (with a Facilitator)*	**8** **Sibling Partners-Family Investor** *Board of Directors (with External Members); Top Management Team; Shareholders' Assembly; Family Council*	**9** **Cousin Consortium-Family Investor** *Board of Directors (with External Members); Top Management Team; Shareholders' Assembly; Family Council/Family Constitution*

governance mechanisms such as family council, board of directors, or TMTs. However, there is an opportunity for the owner–manager to sow the governance seeds by using informal mechanisms such as an advisory board and family meetings to discuss business and family issues (Ward 1987).

Cell 2—Sibling Partners-Family Operator/s

In this configuration of family involvement, the business is owned by two or more siblings and managed by one or more family operators. Compared with Cell 1, there are still rather strong incentives for parsimony in the use of resources as the owner group is small (Carney 2005). Incentives to grow the firm are determined jointly by the priorities of the sibling owners. However, there is generally a reluctance to lose control (Ward 1987). Authority is still centralized and personalized in a small group of siblings. The governance dimension that perhaps changes most notably between Cell 1 and Cell 2 is the norm of legitimacy. In Cell 2, there is typically a stronger demand of accountability from other owners (Gersick et al. 1997). In other words, the norms of legitimacy are set by a wider set of stakeholder although they remain driven by internal constituents.

In this configuration of family involvement, because of the presence of more than one sibling owner, there is a need for a forum for owners—shareholders' assembly—to voice views and opinions about the firm. In addition, family meetings are likely to become a useful governance mechanism given the relatively simple family ownership and management structures. For family businesses in Cell 2, the extent of influence of a board of directors or advisory board depends on the controlling owners' preferences. However, these governance bodies have been found valuable in dealing with conflicts that may arise among owners or operators (Corbetta and Salvato 2004a).

Cell 3—Cousin Consortium-Family Operator/s

Here, the ownership group is broadened while management is still within the hands of one or a few family member operator/s. The broader ownership group means that more family members from different generations and family branches have a vested interest in the business as owners (Gersick and Feliu 2014). It is more likely to have external nonfamily owners in this configuration than in the family businesses located in Cell 1 or 2. The incentive structure in this type of family business depends on the type of owners. If the owners are still closely associated with the family business and its operators and there is agreement on the firm's strategic agenda, parsimony over resources can still be exercised. However, if the owners are not in agreement regarding the future vision and growth strategies, the incentive structure changes notably. Authority is still personified in the family operator/s, although the bigger ownership group may limit his or her authority. In the cousin consortium, the norms of legitimacy are moving even further toward a greater demand for accountability, transparency, and disclosure of information, particularly if there are nonfamily owners (Schulze, Lubatkin, and Dino 2003).

The governance situation for family businesses located in Cell 3 requires a more structured organization of the ownership and family influence. The role of the board of directors becomes more important than in Cell 1 or 2 but varies based on the nature of the diffusion of ownership. For example, in the case of nonfamily members present, the board would be more important as a forum for advice, monitoring, and control than if there are only family owners (Bammens, Voodeckers, and Van Gils 2011). A shareholders assembly emerges, though like the board, its effectiveness and formality may vary significantly based on the ownership form and the extent of alignment between owners and operators. A family council replaces the more informal family meetings in order to facilitate more efficient governance.

Cell 4—Controlling Owner-Family Supervisor

In this type of family business, a family member is the controlling owner and supervisor (CEO) of the firm. However, salaried nonfamily managers play important roles in the day-to-day operations of a firm as part of the TMT. Agency costs creep up as ownership is distanced from the operations, thereby altering the incentive structures. Prioritization of resource allocation and business development varies, as the authority relations are more invested and diffused in a team of managers rather than in a particular individual (Gedajlovic, Lubaktin, and Schulze 2004). Thus, nonfamily managers need to "justify their decisions in terms of their impact on the welfare of others" to a greater extent than family member operators needed to do (Gedajlovic, Lubaktin, and Schulze 2004, p. 902).

The need for internal governance bodies is contingent upon a few factors: (1) whether the controlling owner is also the family supervisor or not and (2) the size of the TMT. Informal interactions and discussions may be enough to secure efficient governance when the family operator and controlling owner are the same individual and when size of the TMT is small (Bammens, Voorderckers, and Van Gils 2008; Hall and Nordqvist 2008). Otherwise, a board of directors becomes necessary for advice, monitoring, and control functions. Moreover, a TMT is needed as a result of the changed incentive structure and authority relations when the controlling owner is not present in the daily management. Family meetings are likely to be helpful to keep the family informed and engaged in the enterprise, though the degree of formality of these meetings may vary considerably depending on the number of potential family member owners or operators.

Cell 5—Sibling Partners-Family Supervisor

Here, the authority relations, incentive systems, and norms of legitimacy are similar to those in Cell 4 as there is a dominance of nonfamily managers in the daily operations of the family business. However, the main difference is that the controlling owner is not the only supervisor to whom the nonfamily management must report. Instead, a greater number of family members are involved as owners. This makes it highly unlikely to provide voice to the owners, family supervisor, and family and nonfamily operators. Governance efficiencies are needed (Schulze, Lubatkin, and Dino 2003). In addition to the shareholders' assembly, a need for more formalized arena for discussions between owners and managers becomes necessary. Often, the board of directors with a mix of internal and external members serves as this governance arena (Bammens, Voodeckers, and Van Gils 2011). Regular board meetings allow the nonfamily management to report to and seek input from the owners leading to accountability toward the bigger ownership group. In the presence of a large number of managers and/or a mix of family and nonfamily managers, a TMT can play a significant role toward developing a shared incentive structure and coherent authority relations throughout the organization (Minichilli, Corbetta, and MacMillan 2010). Family meetings continue to provide a venue for engaging family members by understanding their desires and concerns and keeping them informed of the developments in the firm. Disagreements can be voiced and discussed with an aim to build on the collective dream and vision for the family firm (Lansberg 1999). As differences in opinions can emerge leading to high valence of emotions, an external facilitator is likely to be an efficient addition to the family meetings.

Cell 6—Cousin Consortium-Family Supervisor

The greater involvement of family owners in the configuration in Cell 6 leads to a more complex situation in terms of incentive structures, authority relations, and norms of legitimacy. For instance, whereas it may be relatively easy for a limited number of siblings to agree on an incentive model for a family CEO, such consensus may be harder to reach in the context of dispersed ownership (Gómez-Mejía et al. 2011). From the perspective of the management, the norms of legitimacy are also likely to be more complex. Unless there are clear alignment and communication of the vision of the firm and expectations from the more diverse ownership group, the family business may move in directions not desired by some of the owners (Hall and Nordqvist 2008).

The increased need for disclosure of information and openness from the nonfamily management means that the board of directors with a mix of family and nonfamily members, and the shareholders assembly become important bodies for efficient governance in this type of family business (Schulze, Lubatkin, and Dino 2003). The TMT anchored by the family CEO can help executives to arrive at a shared view in lieu of the direction expressed by the owners. A family council can facilitate the discussion within the family toward shared priorities and goals (Gersick and Feliu 2014).

Cell 7—Controlling Owner-Family Investor

In family businesses located in this cell, the separation of ownership and control is clear, as both the CEO and TMT are formed of nonfamily managers. Though family views the enterprise as an investment, the interests of the owners and managers are likely to diverge

(Habbershon and Pistrui 2002). Governance in this type of family firms resembles a managerial governance model (Carney and Gedajlovic 2003). Authority in the daily operations rests with the nonfamily managers. The incentive system is based on financial features such as bonuses and stock options that are aimed to align the interest of the controlling principal owner and nonfamily agents (Gedajlovic, Lubaktin, and Schulze 2004). Because there is a clear controlling family owner with an investors' mind-set, he or she carries the legitimate authority to make decisions related to reporting systems and resource allocation. The nonfamily executives are mainly accountable to this controlling owner.

In terms of internal governance bodies, we expect an active board of directors to be appropriate in this type of family business as this is the forum for the controlling owner to exercise his or her influence either in person or through representatives (Davis 2008). The controlling owner may use the board to set the strategic direction of this type of family firm and guide the nonfamily managers that make the TMT (Carney and Gedajlovic 2003). The family meetings are an important means to coalesce a family and its vision for the business. In cases ownership is shared between the controlling owner and other minority family owners, family meetings, facilitated by an external member, can prove useful to voice and understand the investing priorities of shareholders (Neubauer and Lank 1998).

Cell 8—Sibling Partners-Family Investor

In this cell, the authority relations and incentive systems are similar to those in Cell 7 as there is a separation of ownership and control. Nonfamily members dominate top management. The owning family views the firm as an investment and remains distant from the daily operations (Schulze, Lubatkin, and Dino 2003). However, a critical difference is the existence of two or more siblings as equally dominant owners, thereby altering the norms of legitimacy as compared with firms in Cell 7 with a controlling owner. Despite the limited number of owners, performance expectations and preferences for strategic direction of the firm may vary among sibling owners. In turn, this diversity of opinions and desires is likely to impact the best way to guide, monitor, and evaluate the performance of the nonfamily CEO, TMT, and the firm (Stewart and Hitt 2012).

Further, the risk of both principal–agent and principal–principal conflicts exists in this type of family business (e.g., Chrisman, Chua, and Litz 2004), making board of directors with a mix of family and nonfamily members to be a useful governance mechanism. A TMT and a shareholders' assembly are a necessity. More formality is brought into family meetings that often take the form of a family council with a formally appointed chair, minutes, and regular meetings. Sibling owners often rotate the key positions among themselves and engage the next generation members to introduce them to the operations of their investment.

Cell 9—Cousin Consortium-Family Investor

In this type of family business, there is an increased diversity among family owners who come from different generations and family branches. The risk for principal–principal conflicts in this type of family firm is even greater than for firms in Cell 8 as all owners take an investor approach to the firm. However, the desire to influence the operations of the firm may vary between owners (Davis 2008; Magretta 1998). Governance of the firm might be further complicated with the involvement of nonfamily owners, which is often the case in these later generation firms. Although dispersed, the ownership control lies within the family, whereas the nonfamily executives run the operations. Thus, the authority structure and incentive systems remain similar to firms in Cells 7 and 8. However, the norms of legitimacy change as we move from ownership between siblings to cousins. Coming to an agreement on the legitimate frame and vision to guide the direction of the firm and within which the nonfamily executives must operate is a challenge in this type of family firm (Schulze, Lubatkin, and Dino 2003). Thus, similar to firms in Cell 6, if the expectations and the performance evaluation criteria may not be clear to the top management due to conflicts within the ownership group, the operations of a firm suffer.

The increased risk of principal–agent and principal–principal conflicts calls for a clear incentive systems for top managers (e.g., Chrisman, Chua, and Litz 2004). The need to disclose information to a wider and more diverse set of owners means that we can expect the board of directors with a diversity and balance of family and nonfamily members, from within and outside the firm, to be an important governance body (Schulze, Lubatkin, and Dino 2003). Moreover, the owners' investor approach entails that the shareholder's assembly becomes an important event to voice and listen to different perspectives and make key decisions such as the composition and membership of the board of directors. The need to maintain coherence among noninvolved owners becomes necessary. A family council gets more formal at this stage with the development of a family constitution that governs the degree and nature of family involvement in the business. This is because the family ownership group is large and diverse, and family members view the firm as a financial investment rather than as a means for employment or career path (Gersick and Feliu 2014). Similar to firms in Cells 7 and 8, a TMT can help the executives to arrive at a shared view based on the guidance from board of directors.

Discussion

Despite a surge in research on governance in family businesses, there is still a need for studies that go beyond comparisons between family and nonfamily businesses and focus on the heterogeneous nature of family firms (Chua et al. 2012; Melin and Nordqvist 2007). We set out to distinguish between various types of family firms based on the extent of family involvement in business and theorize on the relative efficiency of internal governance bodies in different family firms. Following a configuration approach (e.g., Greenwood and Hinings 1996; Miller 1981; Miller and Friesen 1984) and the notion of governance as dealing with authority relations, incentive systems, and norms of legitimation (Carney 2005; Gedajlovic, Lubaktin, and Schulze 2004), we argue that the configuration of family involvement in ownership and management determines the governance bodies appropriate for reaching the desired performance goals.

Viewing family firms through the configuration approach allowed us to gain a more holistic understanding of how a family firm is organized and performs from the interaction of its constituent elements taken as a whole rather than as separate elements (Basco and Pérez Rodríguez 2011). Accordingly, the family firm can be seen as a complex system where the constituent elements hold together in mutual dependence. It is the self-reinforcing effect of mutual dependence factors in management and ownership coupled with different appropriate governance bodies, aimed at supporting the positive or overcoming the negative effects of family involvement in business, that contribute to the family firm performance.

Regarding the family firm performance, we have assumed that the outcome is related to the prioritized performance goals of each family firm. Most family firms emphasize nonfinancial goals in addition to financial goals like profitability and growth (Gómez-Mejía et al. 2007, p. 106). Although the pursuit of a mix of nonfinancial and financial performance goals may be (and often is) an advantage by promoting behaviors that enable the firm to emphasize and invest for the long run (Miller and Le-Breton Miller 2005), it can also lead to path-dependent and risk-adverse behaviors that stifle performance outcomes (Chirico et al. 2011). Thus, the challenge is to find the right governance mechanisms that help a firm to maximize the potential advantages and overcome the disadvantages resulting from different degrees of family involvement in business.

Our aim was not to identify one "ideal configuration" that maximizes performance or suggest that family firms with a closer adherence to a specific configuration will exhibit the strongest outcomes. Rather, following the notion of equifinality from configuration theories (e.g., Fiss 2007), our proposition is that the presence of varying configurations of family involvement in ownership and management varies the incentive system, norms of legitimacy, and authority structures across family firms. For each configuration, some governance mechanisms are more suitable than others. In other words, we do not argue that one configuration is, or may be, better than another one. Rather, different configurations can lead to high level of performance outcomes *if* the appropriate governance bodies are adopted by an organization. Furthermore, as the configuration of family involvement in firm's management and ownership changes, a different combination of governance bodies is likely to be useful to achieve desired performance objectives.

The fundamental reason for setting up governance bodies is to enable voicing the perspectives of stakeholders with varying degrees of current and expected future involvement in the ownership and management of a firm (Goel, Jussila, and Ikäheimonen 2014). Either too much *or* little support from governance bodies is likely to hinder the achievement of organizational objectives (Sharma and Nordqvist 2008). In general, the higher the variance of involvement in ownership and managerial roles, the greater will be the need of different governance bodies so as to ensure the legitimate perspectives of stakeholders are taken into consideration while creating incentives that support the making of strategic decisions that reach the desired performance goals.

We propose that when a family firm has a diversity of family and nonfamily members involved in its ownership and management, governance bodies such as board of directors and TMT can prove to be adequate supporting mechanisms leading to the determination of prioritized objectives and their achievement. These governance bodies ensure coherence between the incentive structures, authority relations, and norms of legitimacy, and the prioritized performance outcomes. In the absence of such bodies, these stakeholders are likely to use their pathways of influence to express themselves and follow their preferred goals (cf. Frooman 1999). On the other hand, when a firm has a simple ownership and management structure, with a centralized authority system, simple incentive structure and the norms of legitimacy are directed toward a single family owner–manager; too much formality and many governance bodies are likely to consume unnecessary resources leading to inefficiencies and perhaps frustrating those responsible for achieving the desired performance goals.

Sometimes in a firm with high degree of family involvement in ownership and management, some external influence is necessary to counter the potential liability of familiness and path dependency that comes with too much family involvement (Sciascia, Mazzola, and Chirico 2013). Accordingly, the composition of the board or the choice of CEO may reflect the need to benefit from additional experience and points of view provided by board members and/or TMT outside the family (Bammens, Voodeckers, and Van Gils 2011). When a family's resources and capabilities are not enough to provide efficient governance, securing the influence of nonfamily advisors in the governance can also provide a balance of continuity and fresh insights, even in a family business where a family member is both controlling owner and family operator as in Cell 1 in Table 1.

However, it should be noted that while authority may remain with a family member, the development toward more external, nonfamily influence in the governance of family firms is likely to lead to a change of the incentive structures and norms of legitimacy (Gedajlovic, Lubaktin, and Schulze 2004). This is because the motivators for family versus nonfamily members may differ. In the context of a combination of family and nonfamily owners and managers, the need for information disclosure and accountability is heightened, necessitating more complex governance structures.

The approach we have taken in this paper rests on the assumption that a fit between configurations of family involvement in the business and adopted governance body will drive positive performance of the firm. As mentioned, high performance refers to achievement of goals both along financial business dimensions such as growth, profitability, etc., and nonfinancial and family dimensions such as family employment, reputation, family harmony, etc. (McKenny et al. 2013). The simultaneous pursuit of financial and nonfinancial performance goals in family firms has implications for the incentive structures, authority systems, and norms of legitimacy that constitutes governance (Carney 2005). For instance, incentive structures cannot be built to only motivate managers striving for financial success. Moreover, the norms of legitimacy means that accountability should be secured with reference to the family's preferred nonfinancial goals as well. We did not focus on the specific mix of financial and nonfinancial goals as a part of the relationship between the configuration of family involvement in business and the appropriate governance bodies. Instead, we assumed that the outcome is a desired mix of different performance goals in each family firm. Future research that more explicitly includes the goals in the configurations should be encouraged (cf. Kotlar and De Massis 2013).

Our theory has other limitations such as lack of empirical verification. Both our conceptual derivation of the nine types of family businesses depicted in Table 1 and the proposed appropriate governance bodies for efficient functioning of family enterprises need to be tested with data. A combination of qualitative and quantitative approaches is likely to generate a rich understanding of the linkages between family involvement and governance bodies. Because our key idea based on configuration theory is that the nature of family involvement in ownership and management determines the appropriate governance bodies for achieving the espoused goals and performance objectives in a particular family firm, we encourage researchers to first focus on the determinants of family involvement. In particular, research could look at how family relations and values may guide the involvement of family members in both ownership and management (cf. Sharma and Manikutty 2005). Detailed and in-depth case studies represent an appropriate research methodology to capture these complex processes. Such a research strategy is also appropriate to address the more specific research question regarding the extent to which the fit between values, family involvement, and governance bodies is a deliberate versus an emergent process over time.

Future studies may also explore the financing sources useful for high performance of different types of family enterprises.[2] For example, might some types of family firms be more inclined to use external financial resources than others? Does this preference influence financial performance, growth, or sustainability of these enterprises? Such studies can preferably use survey data drawn from large and representative samples of family firms. Basco and Pérez Rodríguez's (2011) study on horizontal fit between family and business decisions and the relationship with family business performance is a recent good example of a study that addresses family firm heterogeneity by using a large-scale survey data. Their study is conducted in Spain. It would be interesting to see comparative studies using data from different countries to examine to what extent family involvement in business, governance, and performance outcomes varies across cultures.

Detailed empirical studies of the forces and pressures that act upon family firms to move toward fit or, indeed, out of fit, between their configuration of family involvement and governance bodies would also enhance our understanding of the performance of different types of family firms. Because even if family firms achieve a good fit between family involvement in business and adopted governance bodies, with passage of time, modifications may be needed as the fit between components becomes lost because of external or internal factors.

Another limitation is the nature of literature on family involvement in business and on governance bodies upon which we rely. Although some of this literature is well accepted in academia, others are normative in character and are mainly written for educators and practitioners. While we are aware of this limitation of some of our references, we see immense value in using practitioner-oriented literature as a route toward a greater interaction between research and practice in professional disciplines such as management (cf. Bartunek 2007). We are also confident in our use of books and papers considered classics in the field and highly cited by family business, entrepreneurship, and management scholars; and valued by practitioners as well (e.g., Gersick et al. 1997; Lansberg 1999; Ward 1987).

A third limitation of note is that in some family firms, informal relations and interaction between family and nonfamily members substitute more formal governance mechanisms (Mustakallio, Autio, and Zahra 2002). Usage of these informal relation-based governance practices is likely to create flexible governance arrangements rendering the formal governance structures less crucial than the informal processes (Calabró and Mussolino 2011). While we have treated informal interaction between family members as a key feature of family meetings as a governance body, informal interactions also occur between actors involved in other governance bodies such as boards, shareholders assemblies, or TMTs. Herein lies an important opportunity for future theorizing to focus more specifically on the actual relations between family and nonfamily members and how these relations influence the incentive systems, authority relations, and norms of legitimization in family enterprises.

Additionally, the presentation of nine different types of family businesses, and their respective governance bodies, seems to imply that they represent mutually exclusive configurations. It is possible, however, that there are more configurations and that there are hybrid arrangements representing complementary configurations whose combination may increase family firm outcomes.

[2]We thank our reviewers for pointing us to these possibilities for future research.

Implications for Theory and Practice

We have argued that varying configurations of family involvement in ownership and management that can be observed among family firms imply that the incentive system, norms of legitimacy, and authority structures differ between family firms. Our conceptual logic suggests that the nature of family involvement in business determines which governance bodies are most suited to achieve the desired goals and performance objectives of a particular family firm. Building on the work of Carney (2005) and Gedajlovic, Lubaktin, and Schulze (2004), our paper provides an extended understanding of family business governance that takes into account different types of family business and not only the owner-managed family business where ownership and management are coupled. Thus, we extend knowledge on the governance consequences of the heterogeneity of family business (e.g., Chua et al. 2012; Melin and Nordqvist 2007; Sharma 2004; Westhead and Howorth 2007).

Using a configuration approach and combining two established typologies of family involvement in ownership and management respectively, we derive a new way of classifying family businesses. The nine types of family businesses exhibited in Table 1 acknowledge the inherent diversity of family firms, enabling researchers to approach different topics in new ways. Although we have focused on governance, we believe the developed typology can be used to examine other important phenomena of interest to family business scholars such as succession, new venture creation, strategy making, and financial planning.

The ideas presented in this paper have implications for practicing family firm owners and managers by highlighting the heterogeneity of family firms and the importance of fit between the nature of family involvement in business and governance bodies needed. It is hoped that this understanding will enable practitioners to distinguish between their family firms and others so that it becomes easier to understand whether findings of a research study or advice from a consultant or management book apply to their context or not. In particular, our theorizing provides guidance on the governance bodies that are more likely to contribute to their preferred performance goals, given the particular configuration of family involvement in business.

The ideas developed here can be a helpful tool for teaching at different levels. Understanding the characteristics of governance in different types of family firms should be a part of a course curriculum as natural as learning about the differences between family and nonfamily firms. Such an understanding is likely to support students' learning and prepare them to become effective managers, owners, and/or consultants to family firms. In sum, the ideas presented in this paper have implications for scholars, practitioners, and educators that hopefully enable the development of a richer understanding of the broad spectrum of organizations referred to as family firm.

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