Saimaa University of Applied Sciences
Faculty of Business Administration, Lappeenranta
Double Degree (Bachelor)
International Business

Ann-Kathrin Lamparter

Family Business Governance – a necessity or a voluntary obligation for German medium-sized family businesses?

Thesis 2014

Abstract

Ann-Kathrin Lamparter
Family Business Governance – a necessity or a voluntary obligation for German medium-sized family businesses?, 109 pages, 2 appendices
Saimaa University of Applied Sciences
Faculty of Business Administration, Lappeenranta
Degree Programme in International Business
Thesis 2014
Instructor: Erkki Räsänen, Senior Lecturer, Saimaa University of Applied Sciences

The purpose of the thesis was to examine whether Corporate Governance is necessary for medium-sized family companies in Germany or if it can be seen more as a voluntary commitment. The study also aimed at gaining a deep understanding of the elements and instruments of family business governance. In addition, it was a goal to analyse the level of implementation of family business governance in medium-sized family businesses.

The information for the theoretical framework was gathered from academic books, research papers and recent studies, as the qualitative approach was chosen. In contrast, the empirical part was based on interviews with owners and managers of German medium-sized family companies. These interviews were conducted via Skype or as mail interviews.

The results of the study show that medium-sized family businesses know the significance of good governance, but have not yet professionally implemented the correspondent measures and instruments. Based on the findings it can be concluded that the larger the family businesses are the more likely they have implemented family business governance mechanisms. In correspondence with a complex ownership and management structure the significance of family business governance for medium-sized family companies is rising.

Keywords: Corporate Governance, Family Business, Family Business Governance

Table of Content

1. Introduction 7
1.1 Background 7
1.2 Objectives, delimitations and limitations of the study 7
1.3 Research questions 8
1.4 Research method 9
1.5 Structure of the thesis 9
2. Classification of small and medium-sized enterprises and family businesses 10
2.1 Small and medium-sized enterprises 10
2.2 German Mittelstand 11
2.3 Family business 12
2.4 Definition of medium-sized German family businesses in the thesis 18
3. Corporate governance 18
3.1 Theoretical framework 18
3.1.1 Principal-agent theory 19
3.1.2 Stewardship theory 21
3.2 Corporate Governance and the Deutscher Corporate Governance Kodex 22
4. Family Business Governance 26
4.1 Definition 26
4.2 Objectives 28
4.3 Elements 29
4.3.1 Elements of Business Governance 29
4.3.2 Elements of Family Governance 33
4.4 Instruments 36
4.4.1 Instruments of Business Governance 36
4.4.2 Instruments of Family Governance 43
4.5 Family Business Governance constitution 49
4.6 Corporate Governance Code for Family businesses in Germany 50
4.6.1 Structure of the "Governance Kodex für Familienunternehmen" ...51
4.6.2 Criticism 54
4.6.3 State of implementation in medium-sized family businesses 55
4.7 Relevance for medium-sized family businesses 57
4.8 Assumptions from the theoretical part for empirical research 61
5. Empirical research 63
5.1 Methodology 63
5.1.1 Inductive or deductive approach 63
5.1.2 Qualitative or quantitative approach 63
5.1.3 Standardisation of the interviews 63
5.2 Data collection and analysis 64
5.3 Reliability and validity 64
5.4 Participants and execution of interviews 65
5.5 Analysis and summary of findings 68
6. Conclusion and recommendations 91
Figures 94
Graphs 94

Tables 94
References...95

Appendices

Appendix 1 Interview (Original version in German)

Appendix 2 Interview (English translation)

Abbreviations

AG	Aktiengesellschaft (joint-stock company)
AktG	Aktiengesetz (companies act)
BetrVG	Betriebsverfassungsgesetz (Works Constitution Act)
BilMoG	Bilanzrechtsmodernisierungsgesetz (Accounting Law Modernisation Act)
BilReG	Bilanzrechtsreformgesetz (Accounting Law Reform Act)
DCGK	Deutscher Corporate Governance Kodex (German Corporate Governance Code)
e.g.	for example
e. K.	eingetragener Kaufmann (registered merchant)
ErbStG	Erbschaftssteuer- und Schenkungsteuergesetz (Inheritance and Gift Tax Act)
GKFU	Governance-Kodex für Familienunternehmen (Governance Code for family businesses)
GmbH	Gesellschaft mit beschränkter Haftung (limited liability company)
GmbHG	Gesetz betreffend die Gesellschaften mit beschränkter Haftung (Limited liability company law)
GmbH & Co. KG	Gesellschaft mit beschränkter Haftung und Compagnie Kommanditgesellschaft (limited partnership with a limited liability company as general partner)
HGB	Handelsgesetzbuch (German Commercial Code)
KG	Kommanditgesellschaft (private limited partnership)
KonTraG	Gesetz zur Kontrolle und Transparenz im Unternehmensbereich (Corporate Sector Supervision and Transparency Act)
IfM	Institut für Mittelstandsforschung
MitbestG	Gesetz über die Mitbestimmung der Arbeitnehmer (law on co-determination)
OHG	Offene Handelsgesellschaft (general partnership)

PublG	Publizitätsgesetz (Public Disclosure Act)
SME	Small and medium-sized enterprises
TransPuG	Transparenz- und Publizitätsgesetz (Transparency and Disclosure Act)

1. Introduction

1.1 Background

Family businesses are different than publicly owned companies, as they are dominated by a family, which aims at keeping the company over generations. Family businesses tend to have potential competitive advantages compared to large-scale enterprises due to a long-term strategic direction and a greater continuity of management, but they also face risks like family conflicts, which might have a negative impact on the company. (Koeberle-Schmid, Witt & Fahrion 2012, pp. 26-29.)

Family businesses have a great economic relevance in Germany. Around 92 percent of all German companies are family-controlled and they achieve 51 percent of all sales and employ 60 percent of all employees. A majority of them are small and medium-sized companies. (Stiftung Familienunternehmen 2011.)

However, some family businesses fail due to crisis in the company and in the family, while others can raise their value and stay successful for a long-time. The question is what is the difference between them? It became evident that companies with optimally formed management, control and family structures seem to be more successful and therefore corporate governance is a relevant success factor. (Koeberle-Schmid et al. 2012, pp. 26-29.) In 2010 the governance code for family businesses was launched by INTES and ASU to support family businesses with the implementation of corporate governance by giving recommendations (Kommission Governance Kodex für Familienunternehmen 2010, p. 2). This shows that corporate governance in medium-sized family businesses is a relevant topic, but Raps and Fieber (2003) stated that until now science and literature pay scant attention to it (Ulrich 2011, p. 107.).

1.2 Objectives, delimitations and limitations of the study

The objective of this study is to analyse the importance of corporate governance in medium-sized family businesses in Germany. In addition, it is a goal of the thesis to examine the level of implementation of corporate governance in

medium-sized family businesses. Furthermore, the purpose of the thesis is to gain a deep understanding of the characteristics and the elements of family business governance.

The thesis broaches the issue of corporate governance in German family businesses. Corporate governance in other countries is excluded and corporate governance of publicly owned companies is only taken into account when it is necessary to compare them to family enterprises. Furthermore, the focus of this thesis is on medium-sized enterprises, as there is only little information about corporate governance in those companies. Therefore micro and small-sized enterprises, as well as large-scale corporations are left out in the thesis, except for comparing them with the medium-sized companies. In addition, this research paper does not cover the practical implementation and the development of exact guidelines of corporate governance for medium-sized family businesses, as this would go beyond the scope of the thesis.

One limitation of the thesis is that it compares the theoretical findings only with a relatively small number of companies. This is due to the fact that the author has only a limited time frame in Germany and it could impact on the reliability and validity of the analysis. An increased number of participants could enhance the representativeness of the research paper. Moreover, all industry sectors are considered. However, different industries could be influenced by certain characteristics and factors, which affect the exigency of corporate governance in family businesses. Another limitation is the circumstance that all legal forms are considered to be applicable in the empirical analysis, although some legal forms might have certain requirements and legal obligations, which precede corporate governance recommendations.

1.3 Research questions

The thesis examines corporate governance in medium-sized family businesses in Germany. Therefore the main research question is:

- How important is family business governance in German medium-sized family businesses?

Furthermore, the sub research questions will support the study and they are as follows:

- Why should the owners implement corporate governance in their businesses?
- Which elements are appropriate?
- What are the advantages for the owners?
- How suitable is the governance code for medium-sized family businesses?

These research questions will help the author to find an answer whether corporate governance is more than a good opportunity for medium-sized family businesses in Germany. To answer them, the characteristics of small and medium-sized family companies, the elements of family business governance as well as the Governance Code for Family businesses are going to be examined in the theoretical framework of the thesis.

1.4 Research method

For the theoretical part about family businesses and corporate governance, the qualitative approach was chosen and thus the author gathered information from academic books, research papers and current studies. Some data was also required from internet sources, e.g. current figures about medium-sized enterprises and family businesses. The research methods of the empirical part are described in chapter 5.1.

1.5 Structure of the thesis

The thesis consists of six chapters. The two parts after the introductory chapter deal with the theoretical framework of the study. One of the chapters explains the terms “small- and medium-sized enterprises”, the “German Mittelstand” and “family businesses”. Furthermore, the economic relevance, typical characteristics and types of family businesses are elucidated. Finally it closes with a definition of German medium-sized family businesses, which is the basis for further research. In the third chapter corporate governance is analysed. Therefore the theoretical foundations of the principal-agent theory and the stewardship theory are explained. In addition, corporate governance for publicly owned companies is briefly highlighted. The next chapter of the thesis

comprises information about family business governance and the governance code for family businesses. This includes objectives, advantages and disadvantages, as well as instruments and elements of family business governance. Moreover, the structure of the code is highlighted and the relevance for medium-sized family businesses is examined. The fifth chapter defines the empirical requirements, analyses the empirical data and records the findings. The study closes with a summary of the study and its findings, as well as with recommendations for further research.

2. Classification of small and medium-sized enterprises and family businesses

In Germany the terms small and medium-sized companies, “Mittelstand” and family businesses are used quite synonymously. They have many similarities and analogies, but they also have differences. (Hamer 1990; Khadjavi 2005, p. 53.) In addition, often there are various definitions available. Therefore, this chapter presents the most important ones and in the last sub-chapter a valid and applicable definition of medium-sized family companies in the thesis is presented.

2.1 Small and medium-sized enterprises

According to the Institut für Mittelstandsforschung (IfM) Bonn (2014b) small and medium-sized companies (SME) are defined by the number of employees and annual turnover. Due to these parameters companies with up to nine employees and an annual turnover of up to one million euros are categorised as small companies, while medium-sized companies have up to 499 employees and annual sales revenues of up to 50 million euros (Table 1). (IfM 2014b.) Taking this definition under consideration more than 99 percent of all German enterprises can be classified as SMEs in 2014 (IfM 2014d).

Company size	Number of employees	Turnover
Small-sized	< 10	< 1 million €
Medium-sized	< 500	< 50 million €

Table 1. Definition of SME (IfM Bonn 2014b.)

The European Union also determines SMEs with the factors number of employees and either the turnover or the balance sheet total (Table 2). However, they have slightly different size classifications. According to the European Union micro companies have less than ten employees and a turnover or balance sheet total of less than two million euros, whereas small companies have between eleven and fifty employees and an annual turnover or balance sheet total of less than ten million euros. All companies with a turnover of less than 50 million Euros or a balance sheet total of less than 43 million Euros are categorised as medium-sized. In addition, they do not have more than 250 employees. Nevertheless, these figures only apply to independent companies, not subsidiaries. (European Union 2014.)

Company size	Number of employees	Turnover	Balance sheet total
Micro	< 10	≤ 2 million €	≤ 2 million €
Small-sized	< 50	≤ 10 million €	≤ 10 million €
Medium-sized	< 250	≤ 50 million €	≤ 43 million €

Table 2. Definition of SME (European Union 2014.)

The Handelsgesetzbuch (HGB) also classifies companies in paragraph 267 (§ 267 HGB). In this paragraph small companies are those, which have either not more than a 4.84 million euros balance sheet total or a 9.68 million euros turnover. Furthermore, they have on average fifty employees. Companies with a 19.25 million Euros balance sheet total or a 38.5 million euros turnover are determined as medium-sized. Moreover, they do not employ more than 250 people on average. An overview is given in Table 3.

Company size	Ø employees	Turnover	Balance sheet total
Small-sized	< 50	≤ 9,68 million €	≤ 4,84 million €
Medium-sized	< 250	≤ 38,5 million €	≤ 19,25 million €

Table 3. Definition of SME according to HGB (§267 HGB.)

2.2 German Mittelstand

In Germany the term “economic Mittelstand” is also quite common to describe SMEs. The definition of the IfM Bonn is quantitative, whereas Mittelstand describes those companies in a qualitative way. A company ranks among the “Mittelstand” when ownership, control and management are unified (Ulrich

2011, pp. 24-30). Therefore “Mittelstand” is strongly connected to family businesses, which is explained in the next chapter, but independent small and medium-sized companies also belong to this group. However, small and medium-sized companies, which are not owner-run, have to be excluded. Besides, the size of a “Mittelstand” company is limited and the owner participates in and determines strategic decisions (Ulrich 2011, pp. 24-30.). According to Hausch (2004) and Damken (2007) this aspect can be described as the personalisation of management (Ulrich 2011, p. 25).

The “Mittelstand” describes economic, social, psychological and political issues. Furthermore, it is a term, which stands for the economic and legal autonomy of the company, which means the independence from large-scale companies and the exclusion of subsidiaries (Ulrich 2011, pp. 24-30). “Mittelstand” also includes decentralisation and decision-making, which is geared to the stakeholders of a company. A description of Mittelstand companies goes beyond mere quantitative aspects; it is more about a certain attitude, which all companies in this group have in common. Mostly those companies are long-term oriented; the owners are loyal to their employees and the region, from which they are coming. (IfM 2014c.) As it was said by Gantzel (1962) the economic existence of the entrepreneur and the company are closely connected and the company is often the life-task of the owner and the necessary requirement for his occupation (Ulrich 2011 pp. 24-30).

2.3 Family business

In the academic literature there is no consistent definition of family businesses available. However, it can be stated that the influence of property and management are essential for family businesses (Klein 2004, p. 3). According to the Stiftung Familienunternehmen (2012) there are two approaches to family businesses. Family-controlled companies are companies, which are under the control of a limited number of individuals. However, they do not necessarily have to manage the company. Furthermore, companies are a family business, in case they are controlled by a limited number of individuals and at least one of the owners is participating in the management. (Stiftung Familienunternehmen 2011, pp. 5f.) This definition is also in accordance with the one of the IfM Bonn.

The institute augments the definition in a way that at least 50 percent of a company has to be owned by an individual or his family. (IfM 2014a.) In addition, the owners have a great influence on the vision, strategies, objectives and governance of the company (Koeberle-Schmid 2008, p. 150). Another definition for family businesses was delivered by Chua, Chrisman and Sharma (1999), who describe them as “governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in manner that is potentially sustainable across generation of the family or families”. (Ulrich 2011, pp. 30-32.)

As shown in Figure 1, the typology according to Becker, Staffel & Ulrich (2008a) is based on property and management. Type A describes companies which are owned and managed by an individual person, whereas type B is either a family business, which is owned by an individual and managed by the family, owned by a family and managed by an individual or ownership and management are in the hands of a family. Externally managed companies are combined in type C. This includes both the ownership of an individual and of a family with external management. Type D consists of companies which are possessed by a third party and are managed by a person or family, while type E describes publicly owned companies with external management. (Becker et al. 2008a, pp. 24-30.) This typology is the basis for the classification of the interviewed companies in the empirical part and it is used to determine the differences between the companies.

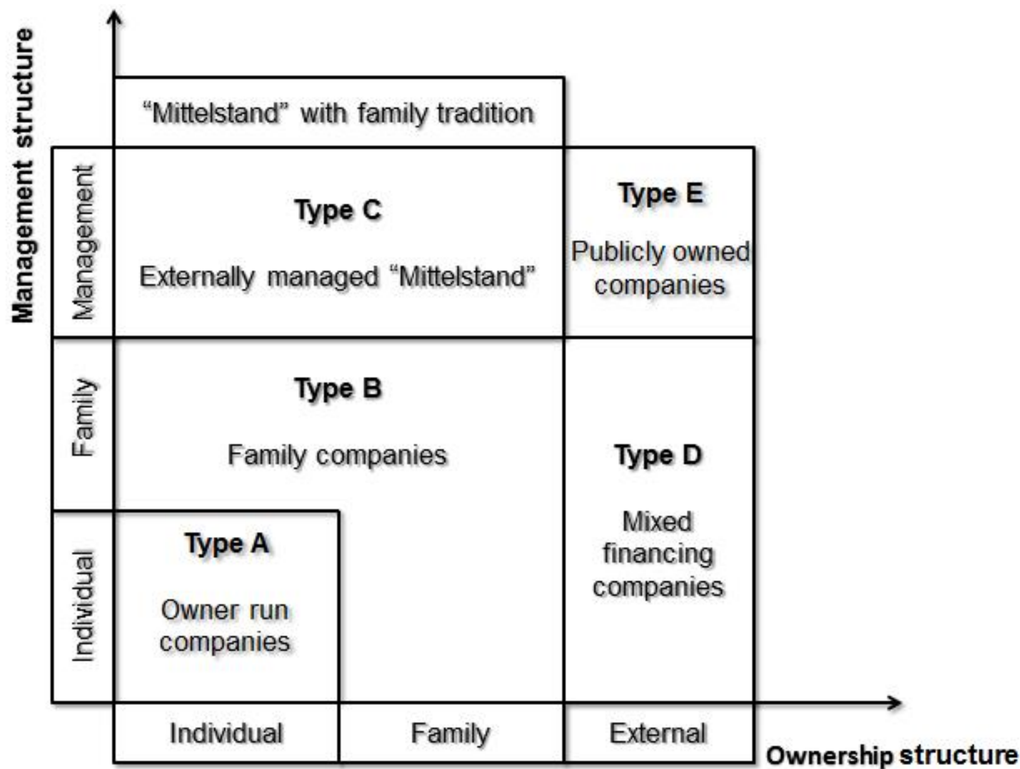


Figure 1. Typology according to Becker (Becker, Staffel & Ulrich 2008a, p. 30)

To distinguish family businesses, the dynamic generation model of Ward (1987) can be also used. As described in the Three Circle Model below, the family business consists of the family, enterprise and ownership subsystems; therefore the values of the family are often transferred to the company. However, as Baus (2006) highlights, successive generations might lose the interrelations between family and enterprise, while the founder of the company intuitively sees and feels the context. Ward (1987) displays the characteristic development of the distribution of ownership over the generations and highlights the fragmentation of shares. The possible types in this generation model are the "autocratic entrepreneur", "sibling partnership" and "cousin-owned family businesses". (Hack & Meyer 2012, pp. 59-77.)

In the family model of the "autocratic entrepreneur" the family is limited to the core family with parents and children. The property is shared among only a few partners and one dominant partner mostly has more than 75 percent of the shares. The founder and the owner are unified in the same person, who is also managing the company. Due to this fact, he or she does not need any protection against the owners, which is normally the reason for corporate

governance. The autocratic entrepreneur is able to act and decide sovereignly. (Hack & Meyer 2012, pp. 59-77.)

The “sibling partnership” is a company, which have already faced a succession. Now the family consists of the families of the siblings. At this point the property is divided among at least two partners. None of the partners possesses more than 75 percent of the shares and there might be already active and passive partners. The management consists of more than one person and decisions have to be made by majority rule. At this stage there is already the possibility of an external management, but however, mostly the management is still family-dominated. Due to these reasons, the threat of a potential conflict has risen. Besides, a supervisory board still might have a rather weak position due to low fragmentation of shares. (Hack & Meyer 2012, pp. 59-77.)

In the “cousin-owned family business” the first dynastic structures become apparent, as the family consists for the first time of cousins with different degree of relationship and from different family lines. In such companies the property can be shared by up to 500 partners and none of them have more than 25 percent of the shares. Cousin-owned family businesses are mainly managed by external persons and the partners are in most cases passive. With the advanced fragmentation, the conflict potential has risen and a supervisory board seems to be necessary. (Hack & Meyer 2012, pp. 59-77.)

According to this model, the increased fragmentation of shares in the successive generations leads to a declining identification with the founder, the family and its values, as well as with the company itself. Due to this declining identification the conflict potential is rising. (Hack & Meyer 2012, pp. 59-77.)

Three Circle Model

The Three Circle Model was developed by Taguiri and Davis and can be seen as the central theoretical framework to understand family companies. It consists of the family, ownership and management subsystems, which are displayed in three circles (Figure 2). This model explains the relationships and mutual interdependences in a family company. The different possibilities of overlapping represent the seven kinds of family businesses, which appear in practice.

(Taguiri & Davis 1996, pp. 199-208.) According to Müller Tiberini (2001) the complete overlapping of the three circles would represent the case when all family members are owners and work at the same time in the business (Papesch 2010, pp. 31-41). If there is no intersection between the circles, this means according to Simon (2005) that employees are no relatives and the company is owned by non-family members or investors and therefore this case can be seen as an anonymous corporation (Papesch 2010, pp. 31-41).

Besides, the intersections also display seven different interest groups with their own legitimate perspectives, goals and dynamics. Section one, two and five display the ownership, respectively the management and the family. The overlap of ownership and management represents owners who are working in the company, but who are not part of the family. In addition, section four illustrates family members who own shares, but who are not participating in the management, whereas family members who are working in the company, but not possessing any shares, are classified in section six. Section seven, the overlap of all circles, represents family members, who are both work in the company and possess company shares. Due to different behaviour and communication of the subsystems, the possible field of conflict is even increased (Baus 2010, p. 15). The insight, which can be got by the Three Circle Model, is that the more complex and interdependent the three sub-systems family, ownership and management are, the bigger is the threat that a crisis in one of the circles might affect the others. Therefore, the long-term success of family companies is dependent on the functioning and mutual support of these groups. (Papesch 2010, pp. 31-41.)

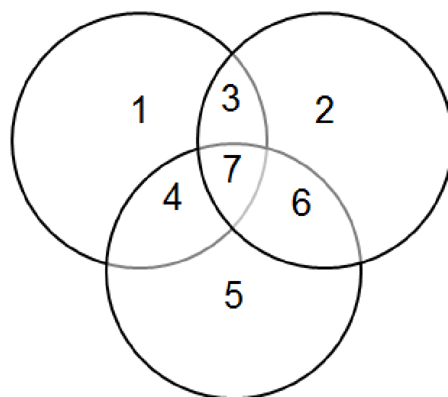


Figure 2. The Three Circle Model (Taguiri & Davis 1996, p. 200.)

Economic relevance of family companies

The “German Mittelstand” is the backbone of the German society and economy. As this term includes family businesses as well, the great economic relevance of them is evident. These companies provide constantly high productivity and employment. Owner-run companies amount to around 90 percent of all companies in Germany. Furthermore, they realise more than 47 percent of all sales revenues and approximately 56 percent of all employees are engaged in family businesses. (Stiftung Familienunternehmen 2011, p. 15.) In addition, in 2011 99.3 percent of all German enterprises are considered as small and medium-sized (Destatis 2014). As there is a great overlap between family businesses and SMEs, it can be concluded that medium-sized family businesses contribute essentially to the German economy.

Characteristics of family businesses

Family companies enjoy respect and appreciation, as they have affected and are still affecting the character of the German economy. Many well-known brands and companies in Germany, like Henkel or Bosch, are family-owned businesses and they stand like any other family business for quality, innovation and distinctive character. Most of the family businesses are influenced by strong characters of entrepreneurs and entrepreneur families. This dominant influence is the major difference between family companies and publicly owned enterprises. Values from the family, like honesty, integrity, responsibility and solidarity, influence the core values of the company. Moreover, family companies have several strengths, which help them to compete successfully with publicly owned companies. Family businesses have often flat hierarchies and structures with short decision-making procedures, reliability to customers and business partners and long continuity. Further strengths are the internal and external identification and the sense of responsibility and solidarity with the employees and the region. Besides this major influence, families tend to keep the company for several generations in the hands of the family and pursue a long-term strategy to sustainably increase the enterprise value and maintain stability, cost-effectiveness and independency. (Baus 2010, pp. 13-16; Hack & Meyer 2012, p. 59-77; Koeberle-Schmid et al. 2012, pp. 26-43.)

Despite the numerous advantages, family companies are also facing weaknesses, which mostly have the same origin as the strengths: the family. Weak entrepreneur families can threaten or even ruin a family business. Conflicts within the family or the company are more frequently the reason for failing family companies than external market risks or bad circumstances. (Baus 2010, pp. 13-16; Hack & Meyer 2012, p. 59-77; Koeberle-Schmid et al. 2012, pp. 26-43.) Moreover, they have mostly rare external transparency. This fact is not necessarily negative, but this can lead to limited financing options, as family businesses tend to have only limited access to the capital market. (Frasl & Rieger 2007, pp. 20-29.)

2.4 Definition of medium-sized German family businesses in the thesis

The underlying definition for the analysis of corporate governance in medium-sized family businesses is based on quantitative and qualitative aspects. Family companies with the quantitative elements of a turnover between one and fifty million euros, as well as with a number of people employed between eleven and 499, are the object of investigation in the thesis. Moreover, the qualitative elements of legal and economic autonomy have to be applicable. In addition, only companies of the types A, B and C according to the typology of Becker are examined.

Due to these limitations, the definition for the thesis is as follows: Medium-sized family businesses are characterised by the legal and economic autonomy. The group of companies with family tradition consists of owner-run companies, family companies and externally managed “Mittelstand”. A turnover between one and fifty million euros and the number of employees between eleven and 499 are the quantitative attributes of medium-sized companies.

3. Corporate governance

3.1 Theoretical framework

As a theoretical basis the author used several theories and concepts. The main theories to explain family enterprises and corporate governance are the principal-agent theory, the stewardship theory and the three circle theory.

3.1.1 Principal-agent theory

Corporate governance is predominantly based on the principal-agent theory, which is a part of the new institutional economics, as it was classified by Ulrich (2009) (Ulrich 2011, pp. 65-70). The principal-agent theory deals with the appearance of specific problems within a contractual relationship between a principal and his or her agent. Alchian & Woodward (1988) and Arrow (1985) determine these problems as the adverse selection, moral hazard, hidden actions, information and characteristics (Ulrich 2011, pp. 65-70; Hack & Meyer 2012, pp. 59-77). The adverse selection describes the fact that the principal cannot exactly evaluate the agent before engaging him due to hidden characteristics. Furthermore, the hidden action and hidden information problems appear after the conclusion of the contract. Hidden action circumscribes that the principal is not able to know all potential actions of the agent as the total supervision would exceed the principal's capabilities. Moreover, there is information, which is only known to the agent and this is defined as hidden information. The moral hazard explains the relation of the agent who could benefit from information asymmetries and therefore harm the principal. (Ulrich 2011, pp. 65-70; Hack & Meyer 2012, pp. 59-77.) According to Hendry (2002) these problems arise due to decision uncertainty, diverging interests, limited rationality, information asymmetries, individual utility maximisation and opportunistic behaviour (Nippa & Grigoleit 2006, pp. 1-49). Therefore it can be assumed that the principal's interests are affected negatively by inappropriate agents or the opportunistic behaviour of the agent. (Nippa & Grigoleit 2006, pp. 1-49.)

Schneider (1988) states that principal-agent relationships develop if at least one principal and at least one agent aim to achieve common goals, which are only partly corresponding. Furthermore, the advantages of one individual can become the disadvantages of the other. (Ulrich 2011, pp. 65-70.) The principal-agent theory is widely used to explain the relationship between a company owner (principal) and the management (agent). Berle & Means (1932) assumed the personal separation of these functions (Nippa & Grigoleit 2006, pp. 1-49). Due to the assumption of the homo oeconomicus both sides try to maximise their benefits by opportunistic behaviour. Eisenhardt (1989) argues that

increased control, monitoring and supervision are therefore needed, as well as appropriate incentives to adapt the diverging interest of principal and agent (Nippa & Grigoleit 2006, pp. 1-49). By Jensen & Meckling (1976) those systems and incentives are characterised as agency costs and can be divided into bonding costs, monitoring costs and residual loss. Bonding costs are the efforts of the agent to minimise the information asymmetries and are paid as risk premium. In addition, control and monitoring costs are arising due to the supervision of the agent. These could be instruments like management accounting or an internal monitoring system. Eventually, the residual loss emphasises the fact that the agent might still not behave totally in the interest of the principal despite the implemented instruments and incentives. (Ulrich 2011, pp. 65-70.)

The addressed instruments, like reporting, supervisory board, a performance-based related compensation and other means can reduce or eliminate agency-problems. These corporate governance instruments either reduce information asymmetries in a way that the supervision of the agent by the principal is facilitated or that they provide incentives for the management in order to behave in the interest of the principal, which reduces the interest divergences between both parties. (Welge & Witt 2013, pp. 185-205.)

In family companies the applicability of the principal-agent theory is depending on the owner structure. Jensen & Meckling (1976), as well as Fama & Jensen (1983) stated that no transaction costs occur, if ownership and management are unified in one person (Fama & Jensen 1983, p. 305; Witt 2008, pp. 1-19; Hack & Meyer 2012, pp. 59-77). Family businesses, in which one partner holds all shares and is at the same time managing the company, do have the unity of ownership and management. The same is true for companies in which all partners hold the same number of shares and are all participating in the management of the company. (Witt 2008, pp. 1-19.) Therefore it can be assumed that those kinds of family businesses have the most efficient way of governance, as they do not have any agency costs (Daily & Dollinger 1992, pp. 120-122). However, in all other family businesses the principal-agent conflict can emerge. In many family businesses not all partners are participating in the management of the company, but they are divided into active and passive

partners. This can lead to moral hazards, as Jensen & Meckling (1976) argued that not all family members have the same interests (Hack & Meyer 2012, pp. 59-77). There might be conflicts about the objectives of the company or about roles and positions of single family members within the company. Those conflicts can be solved with suitable incentives and means, but this causes high costs. Due to emotional complexity, the agency problems and therefore the transaction costs are higher in family businesses than in non-family companies. (Hack & Meyer 2012, pp. 59-77.)

3.1.2 Stewardship theory

As the principal-agent theory cannot be totally justified in family businesses, Argyris (1964) stated that the stewardship theory can give helpful implications for corporate governance in family businesses (Papesch 2010, pp. 31-41). Moreover, Hirsch, Michaels & Friedman (1987) and Tricker (2009) criticise the opportunistic behaviour of the homo oeconomicus as not maintainable and not evidence-based (Welge & Witt 2013, pp. 185-205). According to Donaldson & Davis (1991) the stewardship theory assumes that managers also might be influenced in their behaviour by altruism (Ulrich 2011, pp. 73-77). Furthermore, Davis, Schoorman & Donaldson (1997) highlight that agents are acting socially and serve the common good (Hack & Meyer 2012, pp. 59-77) and therefore, they do not behave opportunistically towards the shareholders.

The stewardship theory is based on the idea of man of a steward, which benefits more from the success of the company than from individual advantages, which are at the expense of the company. Besides, stewards feel strongly tied and obliged to the company they work for. This is especially consistent with the situation in a family business, where individual family members, who are working in the company, are more oriented on collective benefit of the family and the maximisation of the corporate value than on the increase of his or her own benefits. Despite these numerous advantages of the stewardship theory, it is quite complicated to determine whether a manager, both family member and external manager, behaves more like a steward or rather like an agent. (Papesch 2010, pp. 31-41; Welge & Witt 2013, pp. 185-205.)

According to Davis et al. (1997) the shareholder of companies, in which the management can be seen as stewards, can trust them, give them extensive autonomy and abstain from control in companies (Welge & Witt 2013, pp. 185-205). Karra, Tracey & Philips (2006) have proven in a case study that altruism can help to converge the different interests of family members. This then leads to the reduction of transaction costs and therefore family businesses would need corporate governance only to a limited extent. However, this perception has limitations. In older and bigger family businesses altruism can cause other agency problems with raising transaction costs, because altruism occurs mostly within the immediate family. (Hack & Meyer 2012, pp. 59-77.)

3.2 Corporate Governance and the Deutscher Corporate Governance Kodex

In this chapter corporate governance in general is explained. Furthermore, the most important German legislation regarding this topic is outlined and the Deutscher Corporate Governance Kodex (DCGK), as the most important code for corporate governance in Germany, is presented.

In recent years the trust of investors has been shaken due to numerous corporate scandals and insolvencies. The crisis of Enron in the United States and the bankruptcy of Karstadt-Quelle in Germany are widely known and have been the catalyst for the corporate governance discussion in politics, science and economics, firstly in North America, later in Europe. (Welge & Eulerich 2012, pp. 1-6; Werder 2010, p. 5.)

Corporate governance forms the legal and factual regulation framework for the management and supervision of enterprises (Werder 2008, p. 1). The European Central Bank defines corporate governance as procedures and processes, which help to manage and control an organization. The rights and responsibilities regarding corporate governance are shared among the different participants of an organisation. Furthermore, the corporate governance structure determines rules and procedures for the decision-making process. In general, the board, management, shareholders and other stakeholders are involved in corporate governance. (European Central Bank 2005, p. 219.)

In corporations the supervisory board is in the centre of attention, as this committee also bears responsibility for corporate irregularities. To solve this monitoring gap, many white papers have been initiated. The central theme within all legislative proposals is the extension of the responsibility and competencies of the board, as well as stricter penalties for the members of the board in terms of liability. (Welge & Eulerich 2012, pp. 1-6.)

The first law, which stipulates aspects of corporate governance, is the "Gesetz zur Kontrolle und Transparenz im Unternehmensbereich" (KonTraG). Gleißner (2008) states that it does not only affect stock corporations, but also other legal forms, like in particular the limited liability company (GmbH) (Welge & Eulerich 2012, pp. 25-29). The objectives of the KonTraG, as highlighted by Müller (2007) are to determine more exactly the obligations of the management board, to improve the transparency and efficiency of the board, as well as to intensify the cooperation of the annual auditor and the board (Welge & Eulerich 2012, pp. 25-29). With the KonTraG the legislative body obliges the companies to implement an early-warning system, make an annual report and it decrees various regulations for the board. (Welge & Eulerich 2012, pp. 25-29.)

In addition, the "Transparenz- und Publizitätsgesetz" (TransPuG) is one of the most important legislative changes for the companies regarding corporate governance. It changes the "Aktiengesetz" (AktG) and among others it obliges the management board and the advisory board to comply with §161 AktG, which determines that listed companies have to explain annually in how far they have implemented the DCGK. According to Müller (2007) this article converts the DCGK in a binding soft law with a normative character (Welge & Eulerich 2012, p. 29). Diederichs & Kißler (2008) highlighted that further changes, which are implemented with the TransPuG, are the adaptions in the size classifications of corporate entities and the definition of responsibilities for the member of the board, as well as the improvement of their information supply. (Welge & Eulerich 2012, pp. 29-31.)

Corporate governance is also supported by the "Bilanzrechtsreformgesetz" (BilReG), which aims to increase the objectivity and autonomy of the annual auditor and build trust in the informational value financial reports, and the

“Bilanzrechtsmodernisierungsgesetz” (BilMoG). According to Diederichs & Kißler (2008) and Ernst & Naumann (2009) the BilReG and the BilMoG adapt the German accounting standards to international developments. (Welge & Eulerich 2012, pp. 31-37.)

Moreover, codes of conduct are of vital importance. The Deutscher Corporate Governance Kodex (DCGK) is the essential soft law in this context. More and more of its recommendations are integrated in the legislation. The DCGK was firstly published in 2002 by the “Regierungskommission Deutscher Corporate Governance Kodex”. The commission was founded due to one of the biggest insolvencies in Germany and had several predecessors, but all of them lack general acceptance. The first version reacts on the main critics of the corporate governance system in Germany. These are the only moderate alignment on shareholder interests, the dualistic management with advisory board and management board, as well as the limited transparency and the dependency of the advisory board and the annual auditor. (Welge & Eulerich 2012, pp. 50-53.)

The DCGK aims at fostering the stakeholder’s trust in the supervision and management of German listed corporations and the augmentation of transparency of the German corporate governance system. Due to the dualistic system and the distribution of regulations in different laws the German corporate governance System seems to be non-transparent for foreign investors. As Ringleb, Kremer, Lutter & Werder (2010) highlight the DCGK should therefore gain the confidence of the employees, the customers, the investors and the public about the management and monitoring of stock corporations. Moreover, the code has a regulatory function, which tends to improve the quality of corporate governance in German enterprises. For this reason, best practices are included in the code. Nevertheless, Ringleb et al. (2010) state that the code should maintain the flexibility of the companies, therefore the enterprises can adapt and optimise the recommendations of the code individually for their situation. A further designation of the DCGK is the statement that all stakeholders have to be considered by the companies. It even forbids the alignment with the shareholder approach. (Welge & Eulerich 2012, pp. 53-58.)

The DCGK consists of seven chapters, which are shortly outlined here. The preamble states the general content and objectives of the code, as well as the prerequisites for corporate governance in Germany. This includes for example the dualistic approach of management and supervision or the common principles of advisory board and management, like the obligation to act in accordance with rules of the social market economy. The commission also recommends applying the code to non-listed companies. (Regierungskommission Deutscher Corporate Governance Kodex 2014, pp. 1-2.)

The voting rights and the regulations for the annual stockholders meeting are explained in the second chapter. In the annual stockholders meeting the management board is obliged to present the annual statement of accounts. Furthermore, the participants of the meeting elect the annual auditor and the representatives of the shareholders. Within this chapter changes in the constitution of the company, the remuneration of the managing board, the issuing of shares or how to handle the invitation to the annual shareholders meeting are also discussed. In addition, the handling of elections and the voting right representation are issues, which are commented as well. (Regierungskommission Deutscher Corporate Governance Kodex 2014, pp. 3-4.)

The chapter “Cooperation of management board and advisory board” deals with the rules and regulations for the cooperation of management and advisory board, in particular it concretises the confidentiality, consulting, information and reporting obligations. In this chapter the commission also defines the liability of the company regarding the breach of duty. Besides, the procedures during meetings and for the reporting are highlighted. (Regierungskommission Deutscher Corporate Governance Kodex 2014, pp. 4-5.)

The fourth chapter determines the tasks and duties of the management board. It consists of explanations regarding the implementation of the strategy, the accordance with legal obligations, the responsibility for an appropriate risk management and risk controlling, as well as stating the self-dependent management of the company by the management board. Further

recommendations comprise the remuneration and the disclosure requirements. (Regierungskommission Deutscher Corporate Governance Kodex 2014, pp. 6-8.)

The next chapter broaches the issues of tasks, rights and remuneration of the advisory board. First, it explains the responsibilities of supervising, appointing and dismissing members of the managing board. In addition, the advisory board is in charge of the coordination of tasks and the formation of committees. An additional topic in this chapter is the composition of the advisory board, as well as the remuneration of its members. Finally, this chapter deals with the targets and the efficiency of the advisory board. (Regierungskommission Deutscher Corporate Governance Kodex 2014, pp. 9-12.)

Regulations about the transparency can be found in chapter six, which highlights the disclosure obligations and date. (Regierungskommission Deutscher Corporate Governance Kodex 2014, pp. 12-13.)

The last chapter addresses accounting and the annual audit. Information about the compilation of the annual statement of accounts, interim reports and of the corporate governance report are provided in this chapter. (Regierungskommission Deutscher Corporate Governance Kodex 2014, pp. 13-14.)

Both the statutory rules and the guidelines of the DCGK aim at increasing transparency for investors and at considering the stakeholders' interests appropriately. In addition, they want to strengthen the role of the board.

4. Family Business Governance

4.1 Definition

The family and the company are described as two separated subsystems, which are overlapping (Taguiri & Davis 1996, pp. 200-201). Therefore, the governance structure of family businesses also consists of two strongly connected subsystems: Business Governance and Family Governance. Both systems together are building the family governance system, which is defined as the organisation of management and control. Furthermore, family business

governance ensures the solidarity of the family. (Koeberle-Schmid, Witt & Fahrion 2010, p. 162.)

As it is shown in **Fehler! Verweisquelle konnte nicht gefunden werden.** the amily business governance system can consist of two pillars, the business and the family governance. Within the family governance the instruments of family activity, family education, family philanthropy and family office are allocated. In addition, the conflict management and the family council are also part of this pillar. On the other side is the business governance with its instruments internal control system, risk management and compliance management. Moreover, it includes the management of the company, the advisory board, as well as the internal revision. The two parts of family business governance are linked with the shareholders' meeting and the family itself. (Koeberle-Schmid et al. 2012, pp. 32-43.)

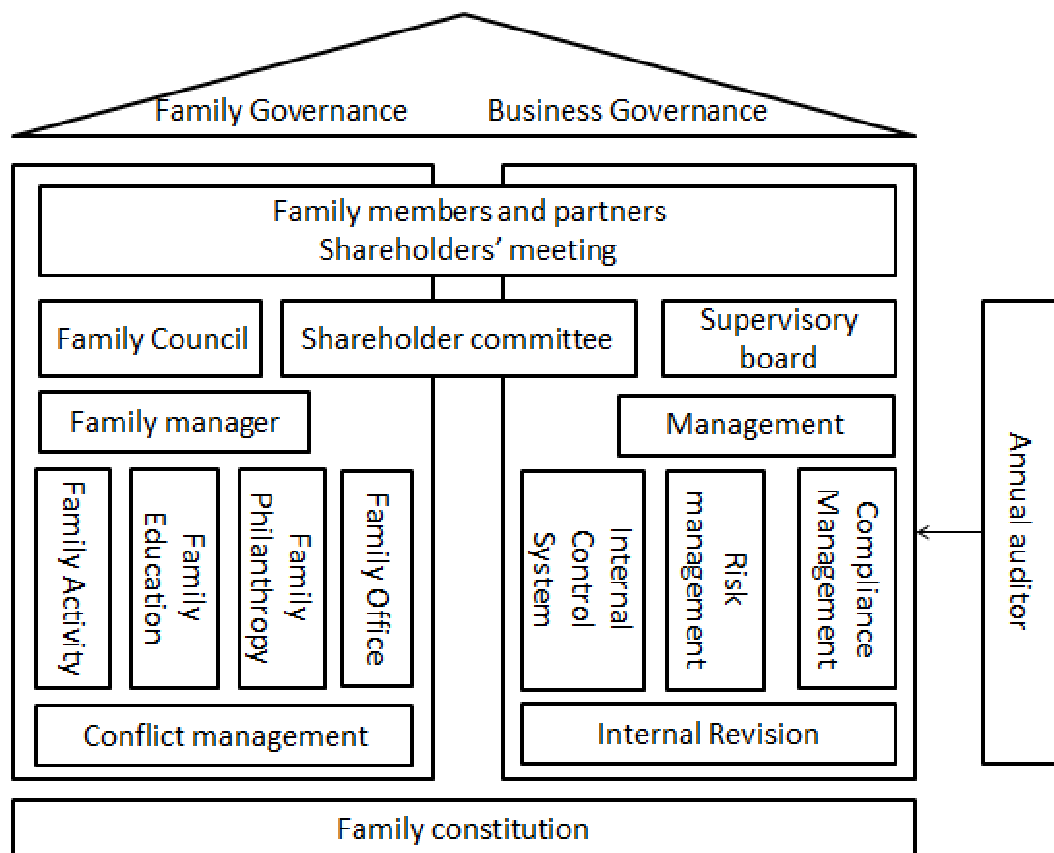


Figure 3. Family Business Governance system (Koeberle-Schmid, Witt & Fahrion 2012, p. 31)

However, every family business has to take into account its specific requirements. According to Gersick, Davis, Hampton & Lansberg (1997) and Sharma & Nordqvist (2008) family companies face different challenges regarding family and business and therefore, not all instruments and measures of family business governance are suitable for all family businesses (Koeberle-Schmid et al. 2010, p.163). The companies have rather to decide, which mean suits best their necessities. Generally speaking it can be said that with rising complexity of the organisational structures within the company and the family, the complexity of corporate governance has to increase analogical.

In the following chapters the objectives, elements and instruments of family business governance are explained.

4.2 Objectives

Corporate governance in family businesses aims at enhancing the economic and emotional value of the company. In addition, with corporate governance the company can be successful in the long-term and remain in the hands of the family for several generations. The aspect of business governance tends to implement transparent and verifiable regulations for the management and the control of the company. Therefore, the company should be organised professionally according to the business governance scheme. The integration of appropriate structures, boards and instruments is dependent on the individual situation of the company. (Koeberle-Schmid et al. 2010, p. 162.)

Moreover, the instruments and measures of the family governance shall increase the solidarity of the owner family and strengthen the commitment of the individual family members to the company (Heyden, Blondel & Carlock 2005, p. 2). Due to this strengthened commitment, the probability of conflicts within the family and alienation from the company by the family is limited. Besides, family governance can create a sense of pride for the company and for the belonging to the entrepreneurial family, which represents the emotional value. (Koeberle-Schmid et al. 2010, p. 163.)

4.3 Elements

This chapter deals with the question, which elements can be identified for good corporate governance. In general the regulations for the composition and function of the supervisory board and the management, as well as the duties and rights of partners are considered as the most important elements of corporate governance.

4.3.1 Elements of Business Governance

Executive board

One of the most important elements of business governance is the management or executive board. Chmielewicz (1993) highlights its importance within the company and the responsibility for the leadership of the company and the achievements of the overall objectives (Ulrich 2011, pp. 137-138). In family businesses the management is slightly differing from corporations regarding the tasks and the composition of the body (Kenyon-Rouvinez 2012, p. 91). A further distinctive aspect is the succession. Consecutively the governance specifications for the management are carved out.

Criteria, which are discussed in the context of composition, include the number of members, as well as the distribution of family and non-family managers (Werder 2008, pp. 50ff.). The family needs to decide whether the management is assigned by family members, external candidates or a mixed board (Kenyon-Rouvinez 2012, pp. 95-101). The legislative regulates to a great extent the composition of the management in different legal forms (§ 76 AktG; § 6 clause 3 GmbHG; § 125 clause 1 HGB). In a sole proprietorship (e. K.) the director is necessarily an owner-manager, while in a general partnership (OHG) all partners are participating in the management. (Ulrich 2011, p. 138.) Besides, it was emphasised by Hausch (2004) that for the legal forms of limited liability companies (GmbH), joint-stock companies (AG) and the limited partnership with a limited liability company as general partner (GmbH & Co. KG) no exact structures are mandatory, disregarding the co-determination in GmbH and AG of a certain size (Ulrich 2011, p. 138). However, medium-sized family businesses are mainly led by the owners in the legal forms of GmbH, GmbH &

Co. KG or sole proprietorship (Espel 2008, p. 28; Janssen 2009, p. 14). Therefore, only a few medium-sized family businesses are led by external managers. Nevertheless, it is proven that with rising size the separation of management and ownership is more common (Becker, Fischer, Staffel & Ulrich 2008, pp. 40ff.; Eckert 2008, p. 304; Reinemann & Böschen 2008, p. 16).

Reasons for an external candidate at the management positions are manifold. First of all, there might be no suitable internal candidate from the family. This can be either due to lacking competencies or that there is no one available or prepared to overtake this position within the family. In addition, scarce motivation can also be a reason for family members to refuse the succession. It has to be considered that directors of family businesses often keep their position for several decades and therefore, they have to be motivated to fulfil their tasks for such a long time. A further reason to assign an external manager instead of a family member as the director can be family rivalry. In all these cases an external manager is the best solution. However, it has to be assured that the candidate matches with the company regarding the values and competencies. (Kenyon-Rouvinez 2012, pp. 98-99.)

Supervisory Boards

The concept of management control is a further aspect of corporate governance in family businesses. It can be described as the extent of formalised control on the business operations. Control can be either exerted by personal contact or institutionalised management control. Formal supervisory boards have a large influence on the long-term development of a company and support the success and protection of the family business by advising and controlling the management. (Ulrich 2011, p. 140; Koeberle-Schmid & Lorz 2012, p. 120.) According to Ward (1991) supervisory boards have several benefits for family companies with fifty or more employees. First of all, the executive board is supported by external experience, expertise and independent opinions. The board members also help to evaluate different options within the strategic planning and support the succession process by electing suitable candidates. Furthermore, a supervisory board fosters discipline, responsibility and accountability of the management. Moreover, the board can help to implement

the values and objectives, as well as strategic decisions in the company. (Koeberle-Schmid & Lorz 2012, pp. 120-121.) In addition, such boards make sure that the interests of owners and managers are aligned (Fama & Jensen 1983, p. 309). However, only 50 to 60 percent of all family businesses with 100 to 5 000 employees do have a supervisory board (Achenbach, May & Rieder 2009, p. 50 ; Becker, Reker & Ulrich 2010, p. 154.)

In practice there are several boards, which are all summarised as supervisory boards. This includes the advisory board, board of directors and board of administration. All of them have different legal obligations and requirements, as well as tasks and compositions. The most important boards for medium-sized family companies are the board of directors and the advisory board and can be either obligatory or voluntarily established. Hausch (2004) stated that mandatory boards play a rather inferior role for medium-sized family businesses due to the predominant legal forms. Therefore, the facultative supervisory boards are of greater importance. (Ulrich 2011, p. 141.) The board of directors is legally binding for the legal forms of AG and the GmbH. However, more than 500 employees are needed in the legal form of a GmbH. (AktG, § 76 BetrVG) The GmbH & Co. KG is obliged to establish a board of directors if the GmbH employs more than 500 people (§ 77 BetrVG 1952 & § 129 BetrVG 1972). In most cases the GmbH only assumes control and liability. However, it is also mandatory for a GmbH & Co. Kg to establish a board of directors in case the GmbH and KG have more than 2 000 employees and the GmbH is the only partner liable to unlimited extent. Furthermore, most of the limited partners of the KG also possess the majority of shares of the GmbH and the GmbH has no business operations of its own or less than 500 employees. (§ 1 MitbestG & § 4 MitbestG.)

For medium-sized family businesses obligatory boards are mainly irrelevant, as they only have up to 499 employees. Therefore, the establishment of facultative boards is possible (§ 52 GmbHG). In case the company does not determine special regulations regarding the function and tasks of the board, the existing stock corporation law is applied (Lange 2009, p. 250). Furthermore, Werner (2006) highlights that the advisory board is an additional board, which exists besides the shareholders’ meeting and management board in a GmbH and

besides the annual stockholders meeting, the managing board and board of directors of an AG (Ulrich 2011, p. 143). Advisory boards are either integrated (statuary) or in personam (obligatory) (Fabis 2007, p. 356). Ruter & Thümmel (2009) explained that statuary boards are based on the memorandum of association and are thus an additional body of the company, while the obligatory board is only obliged to contractual agreements (Ulrich 2011, p. 143). Moreover, an advisory board in medium-sized family businesses has slightly different tasks than a board of directors in a large-scale company. Ruter & Thümmel (2009) described their function as supporting the management by advising, monitoring and assisting in the strategic planning (Ulrich 2011, p. 143). Besides, Ruter (2009) and Klein (2009) highlighted that such a board has decision-making competencies and acts as an agent between company and family (Ulrich 2011, p. 143). Despite the mentioned advantages of supervisory boards, in the majority of medium-sized family businesses the control is exerted directly by the owners and partners of the company (Becker, Baltzer & Ulrich 2008, p. 59). Hausch (2004) added that they prefer the direct control due to lower costs and their own good position regarding the information supply, while Becker, Baltzer & Ulrich (2010) analysed that in companies, which are led by externals, boards support the management in most cases (Ulrich 2011, p.144).

Annual auditor

Theisen (2008) stated that the annual auditing of a company can be seen as a further aspect of corporate governance (Ulrich 2011, p. 148). Besides the auditing of annual financial statements, an auditor can also be responsible and estimated by the companies for tax advice and economic consultations. Therefore auditors support family businesses in various ways. (Grottel 2012, p. 161.)

A statutory audit is obligatory for capital market-oriented companies (§ 315a HGB) and for companies, which are obliged to generate consolidated financial statements (§ 290 paragraph 1 HGB; § 11 PublG), while all other companies independently of their legal form, size and other legal obligations are free to appoint voluntarily an annual auditor. (Grottel 2012, p.166.) Reasons, which argue for an optional audit, are the conditions of financing by outside creditors

or regulations in the articles of the company. A voluntary audit is always reasonable if the fragmentation of the family increases and minority shareholders have to be protected. (Grottel 2012, p.166.)

In order to carve out the role of the annual auditor in family businesses, they are categorised in different types. Locally oriented family businesses focus mainly on their direct region and the family runs and manage the company on their own. Furthermore, these companies are mostly non-incorporated firms without subsidiaries. Therefore, they have no auditing duty and normally these kinds of companies do not consider voluntary audits. Examples are small craft enterprises or hotels and restaurants. (Grottel 2012, pp.162-167.) Regionally and nationally active family companies concentrate their business operations mainly on their home country and region. In addition, the family is still in charge. However, in these companies there can be a duty for obligatory audits. This is dependent on the size or existence of subsidiaries. A further type of family business is the internationally active family firm, which is increasingly complex, but still not capital market-oriented. Due to the complexity the management is often led by externals. Most of these companies might have an auditing duty. The GKFU recommends that family companies establish voluntarily the annual auditing. (Kommission Governance Kodex für Familienunternehmen 2010, p. 18; Grottel 2012, pp.162-167.) As large-scale family enterprises are not the object of investigation in this thesis, the internationally and capital market-orientated types of family businesses are not further analysed in this chapter. The same is applied to exact details about the procedure of the annual audit of financial statements.

4.3.2 Elements of Family Governance

Shareholders' general meeting

Depending on the legal form family companies have different regulations for the shareholder's general meeting. For a GmbH and AG the legislation has detailed requirements. For the GmbH the shareholder's general meeting is the highest decision-making unit with an extensive authority to give directions towards the management. The authority in a GmbH & Co. KG implements also the decision and operations of the KG. In contrast, the annual stockholders meeting of the

AG has no direct influence on the decisions of the board. The advisory board is just responsible for the appointment and dismissal of the executive board and gives advice and monitors the board. (Groß, Redlefsen & Witt 2012, p. 295.) In general partnerships (OHG, KG, GmbH & Co. KG) the law has not allocated any competencies to the shareholder's general meeting. Therefore, the partners of general partnerships have to define regulations and formalities of the shareholder's general meeting. (Groß, Redlefsen & Witt 2012, p. 296.)

In general, every partner and shareholder has the right to attend the shareholders' general meeting. Their right to vote conforms to their number of shares. Further rights include the determination of values, objectives, organisational structure and legal form, as well as the development of a memorandum of association. In addition, all partners are responsible to elect and dismiss the members of a potential advisory board and determine their remuneration and approval. They also decide about capital increase and the acceptance of new shareholders. Besides these legal rights of the partners, they can determine further principles, which are suited to the economic and family situation of the family company. In many cases, they change the necessary majorities for certain decisions. However, the partners have also different duties, which they have to comply with. This includes the loyalty towards the family company, confidentiality and restraint on competition. In many family companies the partners have to negotiate a marriage contract and have to make a will. (Groß, Redlefsen & Witt 2012, pp. 296-299.)

Family governance bodies

Within the family business governance system five different types of bodies with different tasks can be identified (Table 4). First of all, the family council is a body, which is only responsible for the strengthening of relationships. The council has no decision rights towards the institutions of the company. In addition, it is mainly occupied with communication and organisation tasks. This includes the organisation of family activities to strengthen and increase the relationships and solidarity of the family members. (Brockhoff & Koeberle-Schmid 2012, pp. 331-333.)

Tasks of family governance bodies	Types of family governance bodies					
		Family council	Family representation	Shareholder committee type 1	Shareholder committee type 2	Pooling service company
	Relationship	X	X	X	X	
	Property		X	X	X	
	Strategy			X	X	
	Control				X	
	Pooling		(X)	(X)	(X)	X

Table 4. Types and tasks of family governance bodies (Brockhoff & Koeberle-Schmid, p. 332.)

Besides the strengthening of the relationships, the family representation is in charge of the assurance of the family property. In particular when the family is not represented in the management, a family representation can help to prevent the sale of company shares to third parties. In addition, the representation can handle and accompany the exit of partners. (Brockhoff & Koeberle-Schmid 2012, pp. 333-334.)

If the family is represented by a shareholders' committee besides an advisory board, it is a shareholders' committee type one. The shareholder's general meeting assigns decision and consulting tasks to this body in order to influence important decisions by the whole family. This can include decisions under time pressure, decisions about complex issues or other important strategic decisions. This body should be fixed as an institution of the company, as it possesses much more power than the family council or family representation. Therefore, the members of such shareholder committees need to have a greater expertise than the members of family councils or representations. (Brockhoff & Koeberle-Schmid 2012, pp. 334-336.)

According to Zahra & Pearce (1989), Forbes & Milliken (1999), Huse (2005, 2007) and Koeberle-Schmid (2008) the shareholder committee type two has further control and monitoring tasks than type one, because the family company does not have an advisory board. In particular smaller companies often do not

have an advisory board (Montemerlo, Gnan, Schulze & Corbetta 2008, p. 2). Besides the other already mentioned tasks, this type is responsible for the appointment and dismissal of the management. (Brockhoff & Koeberle-Schmid 2012, pp. 336-337.)

Finally, the owners of family enterprises can affiliate in a pool with 25 percent or more to use § 13 of the Erbschaftsteuergesetz (§ 13 ErbStG). In this case the owners are exempted from the capital transfer tax. Furthermore, a pool can bundle the interests of different family roots. The pooling is especially important when externals participate in the management of the family company and to defend the company as a family company. (Brockhoff & Koeberle-Schmid 2012, pp. 337-339.)

4.4 Instruments

4.4.1 Instruments of Business Governance

Nowadays companies are facing with their business operations a dynamic environment and constantly changing conditions. Therefore, the requirements for control and transparency are rising and governance instruments for improving management and control gain importance. Family businesses also face these challenges and cannot elude this development (Brenken 2006, pp. 19ff.). Risk management, compliance management, the internal control system and internal audit are the main instruments for good corporate governance and are highlighted in this chapter. (Fahrion, Käufl & Hein 2012, p.197.)

Corporate governance cannot be limited only to contractual agreements and internal regulations for the management and supervisory board, but it has to be applied to all levels and processes of the business. (Fahrion et al. 2012, p. 199.) Many companies already have recognised the value of governance instruments, as they increase transparency, flexibility and information and process security. However, in medium-sized family companies there is often a lack of governance instruments, but new legal provisions have an influence on them and direct them towards an increased application of business governance instruments. The legislative body implemented the BilMoG, which claims the monitoring of the internal control system, risk management and the internal revision by the

board of directors (§ 107 paragraph 3 Sentence 2 AktG). The previous regulations from the KonTraG or the DCGK are mainly for stock corporations, but the BilMoG is obligatory for stock corporations and co-determined limited liability companies. (Fahrion et al. 2012, p.198.)

The significance of business governance instruments for family businesses is dependent on the different kinds of family businesses and the varying objectives. To analyse the family companies, they are classified in owner-run or completely family-run companies, family companies, which are led by family members, but not all members are represented in the management and finally large family dynasties with total or partial external management. Furthermore, there are different motivational factors, which lead to the implementation of business governance instruments in family businesses. Legal obligations, pressure from the capital market, avoidance of liability risks for the institution, the protection of company assets and improvement of processes and decision-making are the driving forces for family companies to implement risk and compliance management, as well as an internal control system and internal audit. As it can be seen in Table 5 business governance instruments are more likely implemented the more the ownership and management structures are adapted to corporations. (Fahrion et al. 2012, pp. 200-204.)

The principal-agent conflict, which lays the foundation for the business governance instruments, is dependent on the management structure in family companies. The pressure of company owners is higher, if the management is done by externals. In case the owner and manager are identical in a family business, the principal-agent conflict only exists, if there are other partners. In addition, in family-owned companies with an external management, the principal-agent conflict exists between the external management and the owner family. However, this principal-agent relationship is weaker than in corporations, because the information asymmetries are smaller. Moreover, family members with a large number of shares have a greater incentive to gather information, as their wealth results from the corporate value. This effect was highlighted by Kirchdörfer & Kögel (2000) and Peemöller (2006) (Fahrion et al. 2012, p. 202). Due to this fact business governance has a different focus in family companies than in corporations. While in large-scale enterprises external driving forces, like

legal obligations and the threat of opportunistic behaviour, are mainly the reason for the implementation of business governance instruments, in family businesses these means are more directed towards the protection of company assets and the sustainable economic development. This is particularly important for family businesses as they often have invested a major share of their fortune in the company. (Fahrion et al. 2012, pp. 200-204.)

Furthermore, the improvement of decision-making and the increase of transparency within the company are also essential for family companies. Risk management, compliance management, internal control system and internal audit can serve the management, supervisory board and the family members by evaluating the economic and financial situation. Lange (2005) figured out that the instruments help to raise efficiency and effectiveness of the business operations and to reduce the threat of entrepreneurial mistakes (Fahrion et al. 2012, p. 203). In general it can be said that family businesses are mainly internally driven to implement business governance instruments. (Fahrion et al. 2012, pp. 200-204.) Due to the fact that the decisions made in family businesses are mainly based on intuition, Lange (2005) assumed that the business governance instruments are in many cases not developed and used sufficiently (Fahrion et al. 2012, p. 204). However, the smaller a family company is the lower the monitoring and controlling needs are. (Fahrion et al. 2012, pp. 204-205.)

		Family companies			**Public corporation**
		Type 1	Type 2	Type 3	
External	Avoidance of liability risk for institution			X	X
	Pressure of capital market		X	X	X
	Legal obligation		X	X	X
Internal	Protection of company assets	X	X	X	X
	Optimization of decisions & processes	X	X	X	X

Table 5. Driving forces of business governance instruments (Fahrion et al. 2012, p. 202)

Risk management

According to the IDW-Prüfungstandard 340 (2000) the term risk describes the possibility of an unfavourable deviance of the expected or forecasted result (Fahrion et al. 2012, p. 205). In the economy risks are often a measure to determine the uncertainty about the occurrence of future assumptions. Therefore, risk management aims at increasing the transparency of the risk situation of the company and to identify deviations and risk potentials to actively promote countermeasures. A structured risk analysis is the basis of the risk management system, which identifies essential risks. Essential risks are those, which threaten the development or even the existence of the company. Major risks of family companies are often the loss of technical superiority and the loss of and dependence on key accounts, as well as credit risks and IT risks. The major risks are determined by the management and if existing with the board. With the determined kind of risks the company conducts recurrent evaluations of the risk situation by calculating the occurrence probability and vulnerability of the identified risks.

Furthermore, the risk evaluation always has to be linked to the annual planning, as the risks have to be considered in the planning. The next step is the determination of measures to control the risks. However, this does not necessarily mean to avoid the risks, but rather to consciously take the risks. Detailed information is summarised in the risk reporting and then communicated to the management and supervisory board. To cope with the high requirements of risk management the companies should implement a firm risk organisation with given roles, responsibilities and tasks. (Fahrion et al. 2012, pp. 205-208.)

Internal Control System

The internal control system is a further instrument of business governance and consists of principles, processes and measures in order to form business processes safely and correctly. The IDW-Prüfungsstandard 261 (2006) stated that the internal control system, therefore, has a major impact on the assurance of efficiency and effectiveness of the company (Fahrion et al. 2012, p. 208). In addition, the internal control system can either refer to financial accounting or the whole company. The internal control system, which focuses on financial

accounting, considers processes, which assure a correct financial reporting. In contrast, the company-referring internal control system transcends it and includes operative processes, which have no direct impact on financial reporting. Moreover, this system considers the conformity of all processes with established requirements regarding the efficiency and effectiveness, as well as with legal obligations. (Fahrion et al. 2012, pp. 208-209.)

The content of the internal control system is determined by the specific risks of a company. This shows the imperative connection between risk management and the internal control system, as the necessary control mechanisms can only be determined by knowing the risks of a company. Certain control mechanisms, such as auditing of accounts or the authorisation of payment runs are necessary for the basic compliance of each company, but besides companies possess individual risks, which require the focus on those aspects. Controls, which are part of regular processes, are summarised as control activities. This includes approval, authorisations and coordination. Further means of control are the code of conduct or specific guidelines for purchasing or investments. (Fahrion et al. 2012, pp. 209-210.)

Clear and binding regulations for procedures, responsibilities and competencies are the foundation of an internal control system. Therefore, transparent guidelines for the essential areas and processes of a company are important elements of the control system. Besides, key controls should exist, like the four-eyes principle or the control of preliminary calculations, for the execution of central or sensitive transactions. Automated controls extend the efficiency and effectiveness of the internal control system. Such controls can be the limitation of access authorisations or credit limits. These examples seem to be self-evident, but with rising pressure such controls are sometimes neglected. (Fahrion et al. 2012, pp. 210-211.)

Finally, a good internal control system also comprises mechanisms to monitor the efficiency of the control system. Critical overall analyses should examine the completeness, convenience and adherence of the internal control system. The on-going identification of weaknesses, status reports and efficiency ratings

make sure that the internal control system is always up-to-date. (Fahrion et al. 2012, p. 211.)

However, Bungartz & Szackamer (2007) figured out that in small and medium-sized companies internal control systems are rarely implemented (Ulrich 2011, p. 149), but nevertheless the significance and implementation of an internal control system is constantly rising in such companies (Möller & Pfaff 2007, pp. 49ff.; Pfaff & Ruud 2007, pp. 445ff.).

Compliance Management

Companies in general are facing an increasing number of regulations and laws, which they have to obey. Therefore, the threat of violation against those rules is also growing and companies have to bear the consequences of non-compliance. These consequences can be fines, economic damage due to a loss of reputation or costs of external legal advice. Furthermore, members of the management or supervisory board might also be personally liable for damage, resulting from poor compliance.

The term compliance describes the accordance with all laws, regulations and guidelines, as well as with contractual and voluntarily disposed commitments. According to Engels & Schröder (2009) compliance management aims to develop and implement principles and moral concepts in an organisation (Fahrion et al. 2012, p. 212). In the catalogue of duties the specific duties with correspondent risks are summarised and is the result of an analysis of compliance risks. The issues of export control, competition, environmental and product duties, as well as internal duties and corruption prevention might be part of such a catalogue of duties. The main points of the catalogue are transferred to a so-called code of conduct, which can be seen as a guideline for employees and a communication means for external purposes. Due to the discovered risks there might be specific measures or instructions to prevent compliance violations. The principles and duties have to be regularly communicated and the employees have to be trained. In addition, the compliance management is responsible for the fostering of compliant behaviour by providing incentives. (Fahrion et al. 2012, pp. 212-213.)

Internal Audit

The internal audit provides information that increases transparency and limits information asymmetries (Becker & Ulrich 2010, p. 16ff.). Furthermore, it supports as an internal business governance instrument for management and control bodies. The internal audit analyses the effectiveness of management and monitoring processes, risk management and the internal control system. (Geis 2012, pp. 228-229.)

This instrument aims to support the organisation in the achievement of their objectives and contributes to the assurance of staying a family business and to the long-term increase of corporate value. In addition, the internal audit examines whether the financial and operative information is reliable, the processes are effective and efficient and whether the laws, regulations, contracts, ethical norms and values are followed. (Geis 2012, pp. 228-229.) The management can use the results of the internal audit to prove that they have made their decisions on the basis of appropriate information. Furthermore, the implementation of an internal audit directs employees to behave properly, as the menace of sanctions is otherwise given. (Geis 2012, pp. 231-232.)

The implementation of the internal audit is dependent on the organisational development and the management and ownership structure. When the structures become more complex, an internal audit might be necessary. Furthermore, the internal audit needs to be implemented in a way that assures the organisational independence and the personal objectivity. In German enterprises with the dualistic system, the internal audit should report to the executive management. In addition, the internal audit needs employees, who have the necessary expertise and professional accuracy. (Geis 2012, pp. 236-240.)

Possible tasks of the internal audit include financial, compliance, operational, and management auditing or internal consulting. Financial auditing comprises the analysis of the financial situation and the reliability of the financial accounting, while compliance audits aim to examine the correctness and compliance with laws, contracts and internal guidelines. Besides, the operational auditing checks structures, processes and system and the

management auditing traces back the management efforts regarding strategies and objectives. Eventually, the analysis of projects and processes and the advice are part of the internal consulting. (Geis 2012, p. 242.)

4.4.2 Instruments of Family Governance

The entrepreneurial family goes beyond normal families, as they have a common project that ties them together. In addition, not all family members belong automatically to the entrepreneurial family, because this membership is determined by the ownership. With this ownership duties and rights are linked, in particular the right for information and dividends, as well as the duty to behave professionally regarding the company. Therefore there are three major challenges for the entrepreneurial family. The members have to act like professional owners and there should be a unity among the individuals regarding the company. Furthermore, such families have to consider their entrepreneurial responsibility to give something back to the society. To meet these challenges the family governance instruments of family activity, family education and family philanthropy exist. (Peter, Rieder, Störmann & Koeberle-Schmid 2012, pp. 363-365.)

With the family governance instruments of family activity, family education and family philanthropy, the emotional value of the company increases for the family and the family can become a relevant resource for the success of the company. According to Zelleweger & Sieger (2009) and Björnberg & Nicholson (2009) a strong emotional value is defined as pride to belong to the entrepreneurial family and includes shared values and a common strategy for the ownership, good relationships within the family and a lack of conflicts. (Peter et al. 2012, p. 369.) The instruments have to be implemented in a way that they are adequate for the different companies. Each family has to decide by themselves what is important for them. In less complex family businesses it might be enough to meet twice a year for a dinner, while in cousin-owned family companies the need for frequent activities might be evident. Generally speaking it can be said that with the growing number of family members, the need for family governance instruments is also increasing. (Peter et al. 2012, pp. 366, 371.)

Family activity

Family activity can be defined as the activities and measures, which are executed by the entrepreneurial family to increase and strengthen the relationships, the solidarity and the identification with the company and the family. (Peter et al. 2012, p. 364) The major reason to conduct family activities is the objective to strengthen the solidarity in a way that the members see themselves as a unity. Heraeus (2009) stated that emotions between family members, and not the dividends, cause the solidarity and strong connection between partners and the company (Peter et al. 2012, p. 365). Furthermore, he pointed out that families are mostly motivated by the goal to pull together the family and to align the interests of the family and the company. (Peter et al. 2012, p. 365.)

Morris and Pearl (2010) emphasised that strong families can be recognised by certain characteristics. First of all, the members of the entrepreneurial family have identified and determined shared values and objectives, according to which they live and which are passed on to the next generations. Trust and respect are important values in this context. Moreover, the family can be distinguished by specific traditions from other families. The individual members are also willing to learn. Besides, all members try to participate in common activities and support each other wherever possible. Finally, there are clear borders between the members of the entrepreneurial family. (Peter et al. 2012, pp. 365-366.) Family activities can include the framework programme for the shareholders' general meeting with a common evening event and short lectures. A further possibility is a family meeting or family weekend, where the family undertakes a visit to a theatre, a walking-tour or other special events. (Peter et al. 2012, p. 373.)

Family education

The term family education summarises the measures, which aim at increasing the knowledge about the company and the family. This also includes the duties and rights as a professional owner of a family company. (Peter et al. 2012, p. 365.) Furthermore, the instrument of family education aims to increase the professionalism of the entrepreneurial family regarding the ownership (Carlock

& Ward 2001, p. 143). However, only 30 percent of all German entrepreneurial families have recognized the importance to educate their members (Papesch 2010, p. 149). Family education is also needed, because the knowledge and expertise is unequally distributed in most family companies. According to May & Rieder (2006) the managing partner knows the company, but potential co-partners and other family members might not have learned to evaluate and understand the economic connection, strategies and financing options (Peter et al. 2012, p. 367). May, Redlefsen & Haller (2004) stated that only around 30 percent of all passive partners possess knowledge and expertise about the particular sector and 40 percent are able to evaluate financial statements. These facts might have negative consequences as the majority of shares are possessed by passive partners. (Peter et al. 2012, p. 372.) In addition, family education can contribute to the formation of young partners and prepare them for their future managerial functions. (Peter et al. 2012, p. 367.)

Family philanthropy

Family philanthropy is the third family governance instrument and it is defined as the common social commitment, based on the shared values of the family. (Peter et al. 2012, p. 364.) May, Eiben & Peter (2008) analysed that 44 percent of the entrepreneurial families in Germany are engaged as corporate citizens. Mostly they are motivated by the wish to return a part of their success to the society. Economic reasons to be socially committed are not that important for these companies. (Peter et al. 2012, p. 368) May, Eiben & Peter (2008) also highlighted that today most entrepreneurial families are engaged in the field of education, followed by the commitment for art and culture or sports (Peter et al. 2012, p. 370). Besides that, they start their social commitment in the region where they come from and extend it gradually (Peter et al. 2012, p. 390).

Family office

Wealthy entrepreneurial families traditionally use financial and investment services for their assets. However, these services are mainly restricted to monetary aspects. Family offices, in comparison, are specialised in offering services in the material and immaterial asset management, as well as in

financial, tax and legal advice, in succession planning and lifestyle management. (Eiben 2012, pp. 405, 407.)

Furthermore, these offices can be either single family offices or multi-family offices that are in charge of several families. The offices that are only responsible for one family can concentrate fully on the needs and objectives of their client. In contrast, multi-family offices either belong to a bank or are an independent service provider. Therefore, they have reduced costs, but they cannot consider the individual requirements completely. (Eiben 2012, p. 407.) Furthermore, Prinz (2006) stated that banks often limit the access to their asset management service to clients with a certain wealth level, which can be significantly above the wealth level of other family offices (Eiben 2012, p. 408).

The objectives and tasks of single family offices vary with the client structure, as the increasing number of generations also increases the heterogeneity of the family. Nevertheless, single family offices regularly serve the pursuance of monetary and non-monetary objectives. Furthermore, they support the social commitment and the education of family members and family solidarity. Single family offices also aim to preserve capital, maintain liquidity and apply tax compliance. Moreover, the strengthening of solidarity, the acquaintance of the next generation to the company and the pursuance of shared objectives, as well as the securing of the social status are further goals of a single family office. (Eiben 2012, pp. 410-412.)

It is estimated that in Germany, Switzerland, Austria, Liechtenstein and Luxembourg there are between several hundred and more than thousand single family offices, which are in charge of a high three-figure multi billion Euro fortune. (Eiben 2012, p. 406) However, as single family offices are the most expensive form of these offices, they are not economically feasible for every entrepreneurial family. Therefore, the family should possess at least a fortune of 250 million euros. This is due to the fact that the office has significant costs of foundation and operation. In particular the costs of operation add up to 500 000 euros per year for salaries and infrastructure. Besides, there are additional administrative costs, like remunerations for external service providers. (Eiben 2012, p. 410.)

Conflict management

Conflict management in family companies is needed, because conflicts are part and parcel of all social interactions. The family in particular faces numerous kinds of conflicts and helps to learn the dealing with conflicts (Schneewind 2009, pp. 12-23). Moreover, Regnet (2001) stated that conflicts in organisations are inevitable (Kellermanns & Schlippe 2012, p. 429). However, it has to be emphasised that conflicts are not always negative and therefore the striving for a conflict-free organisational culture is not needed (Jehn 1995, p. 256; Kellermanns & Eddleston 2004, p. 210). It is rather the challenge to determine destructrive conflicts and prevent the escalation of conflicts. Due to the overlapping systems of family, company and ownership the complexity is quite high. This does not necessarily lead to conflicts, but the probability is increasing. (Kellermanns & Schlippe 2012, pp. 429-431.) In addition, objective conflicts can change quickly into emotional or relationship conflicts (Kaye 1996; Schlippe & Kellermanns 2008, p. 41).

Family companies are facing several kinds of conflicts, such as objective conflicts or evaluating conflicts, as well as process conflicts. However, conflicts are not a threat before the emotional level predominates. At this point the involved parties are more aware of winning or losing instead of the underlying object. Emotional conflicts can hinder the decision-making processes and limit the success of a company (Jehn 1995, p. 258; 1997, p. 531; Eddleston & Kellermanns 2007, p. 548). While emotional conflicts are a major threat for family businesses, the other forms of conflicts can have a positive impact on the company's success. (Kellermanns & Schlippe 2012, p. 430.) Process conflicts arise when people have different opinions how to achieve an objective. This kind of conflict can change into a relationship conflict, when for example in the succession planning a family member is favoured due to his or her belonging to the family, even if external candidates would be more suitable for managing position. In this case external managers in the company might feel to be unjustly treated and this preference can have a negative impact on his or her performance. Furthermore, family members might be disappointed due to unfulfilled promises. (Kellermanns & Schlippe 2012, pp. 431-432.)

In addition, family businesses are facing cognitive conflicts, which are factual disagreements about objectives and strategies (Jehn & Bendersky 2003, p. 198). These conflicts can help to determine stumbling blocks and to develop long-term objectives and strategies. Participative strategic disagreements and cognitive conflicts positively support the success of the company and minimise opportunistic behaviour. Therefore, this kind of conflict can limit negative governance costs. (Kellermanns & Eddleston 2007, pp. 1049, 1050.) According to Harvey & Evans (1994) and Levinson (1971) emotional conflicts are much more likely to appear and develop in family businesses, as the family members cannot easily leave the company (Kellermanns & Schlippe 2012, p. 433). They stay a member of the family. Therefore, entrepreneurial families continuously need to balance the relationships within the family and the company. (Kellermanns & Schlippe 2012, p. 433.) Emotional conflicts have severe impacts not only on the family, but also on the company. These conflicts alienate employees who deviate from their work. Besides, they limit courtesy and agreement and as well, they increase trouble, stress, hostile behaviour and antagonistic motives. (Jehn 1997, p. 557; Simons & Peterson 2000, p. 103.) To sum up, relationship or emotional conflicts are a major challenge for family businesses, as they foster opportunistic behaviour and concealed objectives. Due to a lack of consensus the decision-making ability and the implementation of strategies are limited. (Kellermanns & Eddleston 2004, p. 213; Kellermanns, Walter, Lechner & Floyd 2005, p. 725.)

As mentioned above, conflicts can have severe negative impacts on the family and the company; therefore Wiechers (2005) demanded that conflict management should be an essential part of corporate governance (Kellermanns & Schlippe 2012, p. 435). Conflicts can be either avoided or enforced; the parties can compromise, cooperate or involve an external mediator (Kellermanns & Eddleston 2006, p. 360). The avoidance of conflicts in any form is a frequent reaction in family companies, but they are only delayed. At the same time, trust is declining and dissatisfaction and rivalry are increasing. Therefore, delayed conflicts can erase certainty at critical points, for example when the founder dies. (Kaye 1991; Kellermanns & Eddleston 2006, p. 360.)

Furthermore, the enforcement of a solution is a further possible reaction to face conflicts. This is mainly done by the patriarch. In external conflicts it can be a possibility to create clarity, but in internal conflicts this might affect the relationships negatively. The solving of conflicts by compromise does not satisfy either of the parties and those solutions are not ideal, but it can help to reduce emotional conflicts. Besides, conflicts can be best solved by cooperation of the involved parties. Both sides work together to try and find a satisfying option to generate trust, communication and support. Finally, the mediation by third parties is also a solution. However, family businesses tend to be quite suspicious of external advice, but it should not be immediately excluded. (Kellermanns & Schlippe 2012, p. 436) These are some options how family businesses can cope with conflicts, but each family company has to find out the best options for them. Nevertheless, Schlippe & Klein (2010) highlighted that conflict management cannot prevent all conflicts, as the social life is not fully projectable and the family is a complex and fragile system (Kellermanns & Schlippe 2012, p. 437).

In addition, possible conflicts cannot only be solved, but also be hindered in their development. Possible prevention instruments include a memorandum of association with explicit conflict guidelines, an external or mixed supervisory board and an annually elected shareholder committee. Furthermore, a family business governance constitution and family activities increases solidarity and improve relationships. (Kellermanns & Schlippe 2012, pp. 437-438.)

4.5 Family Business Governance constitution

Successful family companies should consider the implementation of a family business governance constitution, which defines their governance principles. However, only one quarter of all German family businesses have implemented a constitution to create trust and solidarity and to formulate the aim of keeping the company in family hands. Furthermore, a constitution can help to avoid conflicts, prevent succession problems and foster professional behaviour. The constitution also increases transparency, fairness, professionalism, verifiability, solidarity and assures the long-term increase of the economic and emotional value of the family company. The family companies, which have developed a

family business governance constitution, are significantly more satisfied than those without a respective constitution. Nevertheless, such a constitution is not legally binding and is non-enforceable unless the regulations are transferred to a memorandum of association. (Schween, Koeberle-Schmid, Bartels & Hack 2011, pp. 12-39; Koeberle-Schmid, Witt & Fahrion 2012a, pp. 478-479.)

The family business governance constitution consists of the objectives and values of the family, the company and owners. In addition, there are guidelines for the rights and duties, as well as for the tasks and responsibilities of the different governance elements and instruments defined. The content of a family business governance constitution is aligned with the family business governance system. Moreover, the constitution has to be developed by the family in a collective process with support from external consultants and specialists and has to be adapted to changing circumstances. (Schween, Koeberle-Schmid, Bartels & Hack 2011, pp. 12-39; Koeberle-Schmid, Witt & Fahrion 2012a, p. 479.)

4.6 Corporate Governance Code for Family businesses in Germany

The DCGK and the legislative authority protect the shareholders of listed companies with various laws and regulations (Regierungskommission Deutscher Corporate Governance Kodex 2014, p. 1). However, for medium-sized family businesses this approach is not anticipated. It does not seem that the family of a family-owned company is in need of protection by the government. Nevertheless, since year 2003 private initiatives are set to improve corporate governance in family businesses. (Ulrich 2011, p. 107.)

In 2004 the first version of the Governance-Kodex für Familienunternehmen (GKFU) was published by „INTES Akademie für Familienunternehmen GmbH" and the German newspaper "Welt am Sonntag" (Kommission Governance Kodex für Familienunternehmen 2010, p. 2). In contrast to the DCGK the GKFU is a private initiative and in the commission, which sets up the code, many family entrepreneurs are represented. The code aims to provide guidelines for the responsible management of family companies, both for the enterprise and the family (Grottel, Kieser, Helfmann, Rau & Kettenring 2012, p. 153). The code was revised in 2010 and the differences between the GKFU and DCGK are

showed quite plainly in the amendment (Koeberle-Schmid, Witt & Fahrion 2010, p.161-169). In contrary to the DCGK the code for family businesses is not legally binding. This stems from the fact that family businesses have different legal forms, sizes, financing means and ownership structures. By acknowledging this heterogeneity the code should be applicable for all kinds of family companies. Furthermore, not all topics, which are considered in the DCGK, are relevant for family businesses. (Grottel et al. 2012, p. 153.)

4.6.1 Structure of the "Governance Kodex für Familienunternehmen"

The "Governance Kodex für Familienunternehmen" (GKFU) is similarly arranged like the DCGK. Its main topics are the ownership, the advisory board and management, as well as the result analysis and the distribution of profits. Further information is given about the transferability of the ownership and the designation. Finally the code highlights the family governance.

In the preamble the commission states the necessity of a separate code for family businesses, as these companies have different legal forms, sizes with varying financing and ownership structures. Family businesses need a governance structure, which is focusing on both the company and the family. Therefore, the code aims more to ensure the responsible exertion of influence by the owners on the company and the integration of the family as an important part in the company than to protect powerless investors. Moreover, the code addresses family companies, which strive towards a long-term and sustainable development of the company and the conservation for the next generations. (Kommission Governance Kodex für Familienunternehmen 2010, pp. 3-4.)

The first chapter deals with the commitment to a responsible handling of the ownership. Therefore, the owners should determine which values and objectives they feel obliged to. This includes how far the interests of other stakeholders are concerned and whether individual interests or company interests have priority in case of a conflict. Moreover, the code recommends that the company and information structures have to be organized in a way that owners and a possible advisory board can evaluate the economic and financial situation of the company. The range of this internal transparency has also to be determined and to what extent information is communicated to external

stakeholders. Eventually, this chapter claims that new family members, like spouses or the next generation, are introduced in time to their entrepreneurial responsibility as an owner of a family business. (Kommission Governance Kodex für Familienunternehmen 2010, pp. 5-6.)

The recommendations concerning the owner are highlighted in the second chapter and are divided into the sub-chapters complete owners and individual owners. Firstly, the owners are advised to determine exactly the role of the owners and guarantee the disposition of the company as family property. The relation of stability, cost-effectiveness and long-term growth should be also defined by the owners together with the strategic direction they take. The commission also suggests determining whether they want to delegate power to a voluntary advisory board or not, in case the board is not obligatory for the company. The code advises that it should be determined how many and under which circumstances family members are allowed to work in the company and to receive merits from the company. In the case that members are working in the company, there should be rules for the recruiting and who is making the decision about a recruitment of a family member. Further recommendations are related to the right to vote and the individual rights and duties of an owner. This includes for example the hint to minimize or avoid impacts of divorce and heirships for the company. (Kommission Governance Kodex für Familienunternehmen 2010, pp. 7-10.)

A family business applying the code should consider the implementation of an advisory board, as it can help to ensure the quality and objectivity of the advisory and control of a company. The code comprises recommendations regarding the tasks, the composition of the board, as well as for the remuneration and liability of the board members. The owners should determine whether the owner family is represented in the board or if it is only assigned with external experts. (Kommission Governance Kodex für Familienunternehmen 2010, pp. 15-17.)

The next chapter deals with the tasks, the composition, the remuneration and liability of the management. In particular the prerequisites for family members in the management board are highlighted extensively. Furthermore, family

companies should plan the succession timely and prepare potential successors for their function. (Kommission Governance Kodex für Familienunternehmen 2010, pp. 11-14.)

The issues of result analysis and distribution of profits are explained in the following chapter. It is recommended to assign an annual auditor to prove the annual statements of accounts even if it is not obligatory for the company. Besides, the commission suggests keeping part of the profit within the company to strengthen the equity. (Kommission Governance Kodex für Familienunternehmen 2010, pp. 18-19.)

The owners should make arrangements to ensure that the shares remain in the family. Therefore, the owners should determine exactly who can receive the ownership without any restrictions. It has also to be stated, which circumstances are necessary to transfer shares to other persons and which legal consequences arise. In particular there should be distinct rules for the transfer among living persons and after death. Regulations in this field lead to a restricted fungibility, but in return for the restricted fungibility the owners should have an appropriate right of cancellation. It has to be determined in particular under which circumstances, in which time intervals, according to which evaluation rules, with which disbursement modalities an owner can resign from the common family business. (Kommission Governance Kodex für Familienunternehmen 2010, p. 20.)

Moreover, family governance is the second pillar of family business governance and the code highlights its great importance. Family governance determines who belongs to the owner family, under which circumstances new family members become part of the owner family and under which circumstances members have to leave the owner family again. Above all, the commission recommends communication guidelines to avoid conflicts and common activities to strengthen the sense of solidarity. (Kommission Governance Kodex für Familienunternehmen 2010, pp. 21-22.)

4.6.2 Criticism

Since the code for family businesses was published, there have been controversial discussions about whether it was totally refused or endorsed completely. The basic criticism of the code is the fact that the classical principal-agent conflict of information asymmetries between investors and management would not exist in family businesses. Therefore, such a code for corporate governance does not seem to be necessary. (Grottel et al. 2012, p. 153.) However, the GKFU rather tends to make recommendations about a responsible management of family businesses than aims to protect powerless investors, the main objective of the DCGK (Kommission Governance Kodex für Familienunternehmen 2010, p. 3).

Critics give the fact that the polymorphism of family companies would be opposed to a uniform code. Furthermore, there might be various possible conflicts within a family company, which need a customised solution. This could include overlaps between property, family and management, when not all family members participate equally in the management, but only act as passive partners. This situation can also lead to information asymmetries between management and partners. With proceeding generational changes there is the threat that the values and objectives of the family might fall into oblivion. This is the reason why the code makes recommendations concerning the integration of the owner family and to prepare important aspects of the succession in advance. (Grottel et al. 2012, pp. 153-154.)

In addition, the code is being criticised for lacking in practical relevance. The given suggestions seem to be self-evident and are generalised. This criticism is justified, but nevertheless, the code aims to give incentives to family businesses to engage in corporate governance. Besides, the commission of the code wants to maintain their decision scope. (Grottel et al. 2012, p. 154.) To increase the acceptance of the GKFU by medium-sized family enterprises it would be worthwhile to engage also entrepreneurs of SMEs. At the moment all members of the commission, that have an economic background, come from large-scale family enterprises. (Neuvians 2013, p. 15.) A quite reasonable point of criticism is the fact that the code was designed by INTES. This company advises and

guides family companies and wants to realize growth potentials. (Grottel et al. 2012, p. 154.) Furthermore, the code was established by a private initiative, but this code takes the credit for providing universal recommendations, which are essential for all family companies.

The first version of the code meets with criticism regarding demands from the family to give up their control over the company in case they lose the sake and ability to lead the company. (Kommission Governance Kodex für Familienunternehmen 2004, p. 5; Lange 2009a, p. 144.) This restriction of the power of partners is not reasonable in an economic sense. The same is eligible for the absolute transparency and disclosure. (Ulrich 2011, p. 107.) In addition, the code claims for a binding age limit, as older owners would lack in ability and readiness to assume risk. Even if this might be true in individual cases, this would definitely restrict the economic and entrepreneurial freedom of family businesses and their owners. In addition, a code with all its requirements would result in a limitation of the flexibility of family businesses. (Bernhardt 2010, pp. 7-12.) According to Simon (1990, 1992, 1996, 2007) the entrepreneurial flexibility is one of the major benefits of this kind of business (Ulrich 2011, p. 108). The flexibility stems from the HGB and the “GmbH-Gesetz” (GmbHG). Therefore the “Governance Kodex für Familienunternehmen” should not be seen as a binding guideline for medium-sized family companies, but more as a general checklist with suggestions and aspects that can be individually considered and implemented by the family and the company. (Ulrich 2011, p. 108.)

4.6.3 State of implementation in medium-sized family businesses

In a recent study, which was published after the amendment of the GKFU, the authors highlight the current state of implementation in German family businesses (Grottel et al. 2012, pp. 154-157). They used the 2008 list of the Top-500 family businesses from the Stiftung Familienunternehmen (Stiftung Familienunternehmen 2008, pp. 51-71). However the authors excluded all family companies that are listed as stock corporations and have their headquarters abroad. Therefore the study examines corporate governance in 389 large-scale family enterprises. (Grottel et al. 2012, pp. 154-157.) In

addition, there is no appropriate study about the state of implementation of corporate governance in medium-sized family businesses. In general the implementation of new instruments, measures and means normally starts in larger companies and then spread further. This mechanism could be seen in the development of the DCGK for stock corporations, which was then followed by the GKFU for family enterprises. Therefore the author of this study draws conclusions from the results and transfers them to medium-sized family companies in order to show what the situation is like now.

Firstly, none of the analysed companies have published information about the remuneration or liability of the management, as it was demanded in the GKFU. Therefore it can be assumed that medium-sized family companies also do not tend to increase transparency regarding this topic. (Grottel et al. 2012, p. 155.) Furthermore, only a few of the family enterprises released an annual report and most of these companies have a turnover of more than 500 million Euros. This can be explained by the fact that the examined family businesses are not capital market-orientated and therefore, they do not have disclosure obligations. According to Mandler (2004) most of the medium-sized companies are not organised as stock corporations and therefore, they are not capital market-orientated (Ulrich 2011, p. 27). This leads to the assumption that medium-sized family businesses rarely release reports about their business operations. (Grottel et al. 2012, p. 155.) Family Governance, which concretises the issues of the owner family and the boards, was only applied by around two percent of the sample group. Therefore, the author of this thesis reasons that in medium-sized companies this rate is even lower and that family governance does not yet play a vital role for them. (Grottel et al. 2012, pp. 155-156.) Moreover, only five out of 398 sample companies provide information about their succession planning. However, some companies informed the public that several generations are already working in the company and therefore the succession planning is not so essential for them. (Grottel et al. 2012, p. 156) Further findings of the study are that companies provide more information about advisory boards and comprehensive governance structures the bigger turnover they have. This shows that the smaller the companies are the less likely it is that they might have an advisory board or other governance structures and

therefore the medium-sized family companies might also be reluctant. (Grottel et al. 2012, p. 156.)

From the study it can be deduced that family businesses are in general quite reluctant to disclose information, as they see them as not relevant for external stakeholders and they rather comply with obligations than voluntarily increase transparency. However, often the sample companies are concerned about the above mentioned topics internally, but they do not communicate their achievements. (Grottel et al. 2012, pp. 156-157.)

4.7 Relevance for medium-sized family businesses

Medium-sized family companies have different advantages and disadvantages regarding corporate governance, which are explained in the following. Furthermore, this chapter analyses the relevance of corporate governance for medium-sized family businesses.

The principal-agent theory assumes a personal separation of property and management, which is the typical situation in joint-stock companies. This organisation is, however, not characteristic for medium-sized family enterprises. In family companies with an autocratic entrepreneur or equally participated shareholders, ownership and management are identical. Therefore, the potential interest conflict is missing and therefore those companies do not have agency costs. Due to this fact they have no governance problem. Nevertheless, family companies are a quite heterogeneous group with varying legal forms, sizes and organisational structures. As soon as ownership and management are divided family companies also face governance problems. Furthermore, principal-agent conflicts arise when the management is executed by professional externals and not by family members. This displays the classical conflict of the principal-agent theory. (Welge & Witt 2013, p. 189.)

Furthermore, medium-sized family companies have lower disclosure obligations, which are a common mean to solve principal-agent problems. Passive shareholders and outside creditors have less information about the economic situation and the pursued strategies than the management. Disclosure obligations reduce the information asymmetries. Therefore, they can

be seen as an instrument to reduce financing costs and transaction costs of capital procurement. However, disclosure obligations can also have severe disadvantages for a company. Not only external shareholders and outside creditors get insight into the company, but also competitors and clients. Clients might press for lower prices in the next negotiation, if the results are good. In addition, competitors can analyse more easily the cost structures and new products. Medium-sized companies, which have higher disclosure obligations than their competitors, are penalised. Thus, low disclosure obligations are a competitive advantage. The legislative has determined disclosure obligations according to the size classification (§ 267 HGB) and the legal form of a company. It can be said that smaller companies have some facilitations (§ 325, § 326, § 327 HGB). Due to these facilitations medium-sized companies have governance advantages regarding the disclosure obligations. (Welge & Witt 2013, pp. 191-192.)

Besides the advantages of a unity of ownership and control and the lower disclosure obligations, medium-sized family businesses also have some governance disadvantages, which might make the implementation of corporate governance necessary. In many cases medium-sized family businesses are facing missing control of the management by the stakeholders. The advisory board is the most important element of control by external shareholders and other interest groups. It is a good means to receive expertise and to obligate specific persons to the company. Furthermore, an advisory board can avoid negative impacts of the family on the company. (Neuvians 2013, p.18) In 2012 more than 60 percent of all German SMEs have implemented an advisory board (Achenbach & Gottschalck 2012, p. 50). However, due to scarce legal instructions there might be a control deficit in medium-sized companies. (Welge & Witt 2013, pp. 193-194.) Only four out of ten family companies equip the advisory board with control competencies (May & Lehmann-Tolkmitt 2006, p. 229). Furthermore, a study executed by Klein (2005) presumes that many medium-sized companies only have an advisory board with lacking control mechanisms (Welge & Witt 2013, p. 194). Therefore, medium-sized family companies have governance disadvantages in the field of control. In addition, it has to be said that medium-sized family businesses have fast communication

channels and non-bureaucratic procedures, which make them competitive. Furthermore, the voluntarily implementation of a board increases the complexity of the managerial structure and the costs (Kormann 2008, p. 158). Therefore the implementation of an advisory board has to be well deliberated, whereas for medium-sized family companies with complex ownership structures it is reasonable to implement an advisory board. (Neuvians 2013, pp.17-20.)

Moreover, family companies in general are more threated to conflicts than joint-stock companies. Thus, this is equally true for medium-sized family companies. These conflicts can arise between the shareholders of large and small number of shares, as well as between passive and active partners. Conflicts among partners might end up with the exit of shareholders, which can have major impacts on the liquidity of the company and the remaining shareholders, when they buy shares. Furthermore, conflicts can damage the quality of management and the relationship with employees and business partners. In addition, the company can suffer from the discharge of economic and technological expertise. (Welge & Witt 2013, pp. 194-195.) The worst case scenario is the insolvency of the company (Redlefsen & Witt 2006, p. 14). However, it is quite obvious that an extensive conflict management for a typical medium-sized family company with a limited number of family members is not appropriate. Nevertheless, conflicts should not be neglected, but rather regarded as normal everyday events. Medium-sized companies should therefore think of communication guidelines and an atmosphere of constructive debate that can prevent conflicts and they should be prepared for the case that de-escalation is not possible anymore. Then a neutral and accepted person should mediate between the parties. This form of conflict management is also applicable for medium-sized family companies without causing too much cost and effort. (Neuvians 2013, pp. 22, 24-24.)

The dependence on outside financing is a further governance disadvantage of medium-sized family companies. The principal-agent theory assumes the potential interest conflict between shareholder and management. Therefore this model considers basically the governance problem of equity financing. Traditional governance instruments, such as an incentive-based remuneration or disclosure and liability obligations, intend to protect external shareholders

from the opportunistic behaviour of the management. In case a company has not or only to a small extent has taken up capital, governance instruments for the protection of external shareholders might be expendable. However, not all governance instruments are disposable, as a company barely can abstain from external financing. In many medium-sized enterprises the companies, the financing is internally and externally organised. Therefore, the governance instruments aim to protect the outside creditors rather than the external shareholders from an opportunistic behaviour of the management. In addition, the principal-agent theory is also applicable for outside financing and according to Jensen (1986) and Hart (1995) instruments like interest and pay back obligations can also be used for this kind of financing (Welge & Witt 2013, p. 196). In the case of outside financing there are also information asymmetries and interest divergences between creditors and management, because the parties do not equally participate in the profit and loss accounts of the company. Thus, the creditors tend to receive securities. This kind of creditor protection is advantageous for the creditor, but for medium-sized companies there are severe drawbacks. Medium-sized companies are highly threatened to be dependent on banks and to be limited in their strategic possibilities. As Albach (1999) stated this is due to the fact that in practice the information asymmetries between banks and management are relatively small. Extensive and timely reporting duties are standards and medium-sized family businesses have to provide detailed investment and business plans, if they aim to receive new loans. Furthermore, many advisory boards of medium-sized family businesses are assigned by bank representatives (Achenbach & Gottschalck 2012, p. 51), who have broad information rights and a voice. It is obvious that medium-sized companies are the more dependent on a credit check from the banks, if other financing sources are not available or if the market is volatile. Further reasons for the dependency on banks are quickly changing technologies and a bad self-financing power. (Welge & Witt 2013, pp.195-197.)

Due to the mentioned governance advantages and disadvantages it has to be said that corporate governance is certainly an important aspect for the good management of a medium-sized family company and should not be ignored. Many aspects and recommendations of corporate governance can also be

applied by medium-sized family companies and not only by large-scale family enterprises. The increase of transparency seems to be unnecessary, but it can definitely have an impact on the trust of employees, customers, suppliers and among the shareholders as well. Furthermore, medium-sized family companies should focus their attention on the family, for example by introducing a family day, which increases solidarity significantly and helps to prevent conflicts. Eventually, family companies should consider the education of future partners. (Neuvians 2013, p. 28.) To sum up, each company has to consider which aspects are suitable for their individual situation. This supports the longevity and success of a medium-sized family company.

4.8 Assumptions from the theoretical part for empirical research

Due to the findings in the theory part certain assumptions can be drawn for the empirical part. These assumptions will be compared with the results from the interviews.

The first assumption is a matter of objectives and values. The main objectives of medium-sized family businesses regarding corporate governance are the long-term success of the company and the fact that the company stays in the hands of the owners. This includes the aim to keep the company for several generations in the family and to maintain the influence of the family on the company. In addition, corporate governance tends to increase commitment and solidarity of the family members and reduces the probability of conflicts. (Heyden, Blondel & Carlock 2005, p. 2; Koeberle-Schmid et al. 2010, p. 162.)

Secondly, the theoretical results show that medium-sized family businesses are mainly led by the owners in the legal forms of GmbH, sole proprietorship and GmbH & Co. KG. Therefore only a few might be led by an external management. However, it has to be assumed that the more the ownership and management functions are adapted to those of corporations, the more corporate governance elements and instruments might be used. (Espel 2008, p. 28; Janssen 2009, p. 14; Fahrion et al. 2012, pp. 200-204.)

Besides, it can be assumed that the family companies, in which ownership and management are unified, have lower control and monitoring needs. This is due

to the fact that the principal-agent conflict plays only a minor role in these companies. Furthermore, in the majority of medium-sized family businesses the control is exerted directly by the owners and partners of the company. (Becker, Baltzer & Ulrich 2008, p. 59; Welge & Witt 2013, p. 189.)

A further assumption is that family businesses are in general quite reluctant to disclose information, because they see it as not relevant for external stakeholders. (Grottel et al. 2012, pp. 156-157.)

Moreover, in medium-sized family companies there is often a lack of governance instruments, because decisions, as Lange (2005) stated, are mainly based on intuition (Fahrion et al. 2012, p. 204). In many cases governance instruments are therefore not developed and used sufficiently. New legal provisions have an impact on medium-sized family companies and direct the companies towards an increased application of these instruments. However, family businesses are mainly internally driven to implement governance instruments. (Fahrion et al. 2012, pp. 198, 204-205.)

Due to the family ties, family companies are more threatened by conflicts than corporations (Welge & Witt 2013, pp. 194-195). However, an extensive conflict management is not very close to reality for a typical medium-sized family company (Neuvians 2013, pp. 22, 24-24).

All in all, medium-sized family businesses have not (yet) developed their governance professionally. However, they know the significance of corporate governance and already have intuitive approaches for a good development of family business governance regarding the transparency, social commitment or succession planning. Furthermore, family companies in the hands of the following generations are more urged to establish corporate governance than owner-run companies of the first generation. (Reinemann & Böschen 2008, pp. 1-19.)

5. Empirical research

5.1 Methodology

5.1.1 Inductive or deductive approach

For the thesis the inductive approach was chosen to better understand the problem of corporate governance in family businesses and to find common patterns among the interviewees. The results of the collected data are then compared to the findings of the theoretical part. As the topic of “family business governance” is not very common yet for medium-sized family businesses, there is not much theoretical information about this topic in literature. Therefore the inductive approach might help the author to further develop the theoretical perspective. (Saunders, Lewis & Thornhill 2012, p. 143ff.)

5.1.2 Qualitative or quantitative approach

Besides the decision about inductive or deductive approach to the thesis, it had to be decided whether to select the qualitative or quantitative approach. For the thesis the qualitative approach was more reasonable, as non-numeric data is required and it is used to limit predetermined answers. With the qualitative approach the data collection is not standardised and as questions may alter and emerge during the research process, this approach is more suited to this topic. (Saunders et al. 2012, p. 161ff.)

5.1.3 Standardisation of the interviews

The author of this research paper chose to conduct semi-structured interviews with a framework of predetermined topics and key questions. This helped to give the interviews more structure and it was still possible to ask additional questions or allow the interviewee to extend an additional point. Semi-structured interviews are also more flexible, but with the key questions they are still comparable to each other. (Saunders et al. 2012, p. 372ff.)

5.2 Data collection and analysis

All interviews were conducted per telephone or as email interviews. In case of telephone interviews, the author used a recording system during the interviews and then transcribed them. The written versions of the interviews were sent to the participants in order to receive their approval. The email interviews were already electronic versions, but they have to be cleaned up from typographical errors. All data was scanned for potential categories in order to rearrange the data into analytical categories. These were determined by the objective of the research. Every new interview added relevant data to the categories. During the analysis of the data new key terms and patterns were discovered, and therefore the data was rearranged and categories were revised. The aim of the thesis is to find valid and well-founded conclusions by excluding other explanations and the nature of negative cases. The findings are written down and quantifiable results are displayed in graphs and charts as an addition. (Saunders et al. 2012, pp. 546-563.)

5.3 Reliability and validity

According to Marshall and Rossman (2006) the nature of semi-structured interviews might raise concern about the reliability of the data, as they show the reality at a certain time when they were collected and the information might change if they were conducted again.

In the interviews the author might also have to cope with biases on both the interviewer and interviewee sides, as semi-structured interviews are not fully standardised. To overcome biases the author worked towards gaining enough knowledge about the theoretical framework and the interviewee to appear trustable and credible. (Saunders et al. 2012, pp. 382-383.)

Furthermore, the issue of generalizability also has to be considered. According to Marshall and Rossman (2006) the findings of a qualitative research might be harder to generalise, as the data comes from a relatively small and unrepresentative number of cases. However, research findings need to be related to existing theory in order to demonstrate that the findings have a broader theoretical significance. Therefore the results of the thesis might not be

applicable for all medium-sized family businesses in Germany, but due to the fact that these are based on a broad theory of corporate governance, the generalizability can be ensured. (Saunders et al. 2012, pp. 380-384.)

The validity of semi-structured interviews is given, as the researcher is able to clarify questions, to check meanings and to ask further questions in case of vague responses. (Saunders et al. 2012, pp. 380-384.)

5.4 Participants and execution of interviews

The thesis focuses on corporate governance in medium-sized family businesses. Therefore all interviews have been conducted with partners of family businesses between ten and 499 employees. To increase applicability, reliability and validity of the interviews there are no other similarities than the above mentioned. The interviewed companies vary in size, industry and legal form. Furthermore, there were only individual interviews and no group interviews.

The empirical data was gathered from seventeen different family companies, which are presented briefly below.

Company A is a wholesaler for organic oils and fats that are used in the cosmetics industry, as dietary supplements and for food purposes. The company employs fifteen people and has a turnover of 10 million euros. It was founded in 2003 and is now led by the son of the founder, but the shares are owned by his mother.

Company B is located in the machine building industry and produces bottling plants. This includes the filling, closing and labelling of bottles and bins, as well as bottle unscramblers. Around 90 employees generate a turnover of approximately 12 million euros. This family company has been in existence since 1960 and today the two sons of the founder are in charge.

Furthermore, Company C is engaged in the textile industry and manufactures individual high-quality car and seat covers for all car models and series. A turnover of around 1.5 million euros is generated by thirteen employees. The

company has been in existence since 2010 and is run by a married couple. However, the shares belong to the husband and the daughters.

Company D operates in the mining and quarrying industry. It employs around 100 people and has a turnover of 25 million euros. The company has a quarry and provides services in earth-work, civil engineering and road construction, as well as ready-mixed concrete and sports and tennis field construction. The company was founded in 1924 by two men. Today only one of the families is still in the company and the third generation is now in charge. Since 2004 the siblings are leading the company.

Moreover, Company E is a medium-sized family business with 80 employees and an annual turnover of seven million euros. Since 1960 the company has specialised in sheet metal forming and has been managed by the founder's daughter for ten years.

A further interview partner was Company F, which is a golf course site. The company also offers training courses. The company employs fifteen people and generates two million euros. The company is owned by a woman and she runs the company together with her son.

Company G has been in existence since 1897 and trades with oils and fats for the cosmetics industry, pharmacy, chemistry and technical industry. The company is owned and led by two brothers. Furthermore, the company is a supplier for the food industry. Around 150 people are employed and the company group generates around 50 million euros. The company has nine subsidiaries and representations. In addition, the company has entered a strategic partnership with an oil mill and plantation for almonds and walnuts in California. Therefore the company is not only a wholesaler for oils and fats, but also a producer of almond and walnut oil.

Besides, the Company H provides empirical data. It produces malt and brews malt beer. The company was founded in the 19th century and has now 140 employees, which generate around a 44-million euros turnover. The company is led by the fourth and fifth generations of the family, who are a married couple and their nephew.

Company I is a well-known bookseller, which was already founded in the year 1596. However, the owner family have changed several times in the past. Today the company is owned and led by two brothers and one of the sons. In addition, the wives of the three men are also part of the management. The company employs 450 people and generates a 50-million euros turnover.

The next interview partner, the Company J, is an oil mill and a wholesaler for edible oils, which has been in existence since 1859. The company’s own brand is sold in Germany and parts of Europe, but the company also manufactures private brands. The family business employs around 50 people and generates 27 million euros. The company is owned by the father and his two daughters. However, the two women are in charge.

Company K produces sensors, measurement instrumentation and control systems for various industries. The company was founded in 1969 and is now led by the owner-manager. Around 50 employees work for this company and the turnover accounts for approximately seven million euros.

A sales company for professional coffee machines is the interview partner Company L. The company is led by two brothers, who assume the responsibility from their father. He founded the company in 1960. Today around 15 employees work in the company and the company makes a turnover of almost three million euros.

Company M is selling pallet transporters, haulers and industrial trailers. In addition, they offer machines for rent, various services, including advice, procurement of spare parts and repair and driver trainings. The company employs 60 people and generates a turnover of almost ten million euros. Furthermore, the company is led by one man, who is supported by his parents and his wife.

In addition, Company N sells and installs garage doors and drive systems. Furthermore, it offers repair services. Eleven employees work for this company and the company makes a turnover of one million euros. The company is led by a couple, but the company is owned by the husband.

A further interview partner was Company O that develops application systems for liquids and powder. Around 140 employees work for this owner-run family company and the turnover accounts for sixteen million euros. The company has been in existence since 60 years and two families hold shares.

The next interview partner was Company P. It is a wholesaler for bookbinding demands and print finishing. It employs 24 people and generates a turnover of around four million euros. The company is owned and run by a married couple and another man. They bought the company from someone else. However, the company has been in existence since 1869.

The last company, that was interviewed, was the Company Q. They offer services in urban, landscape, site development and free space planning, as well as real estate evaluation services. Twenty people work for this architectural office and the sales amount to approximately one million euros. The business is owned and led by one man, but his wife and his son also work in it.

5.5 Analysis and summary of findings

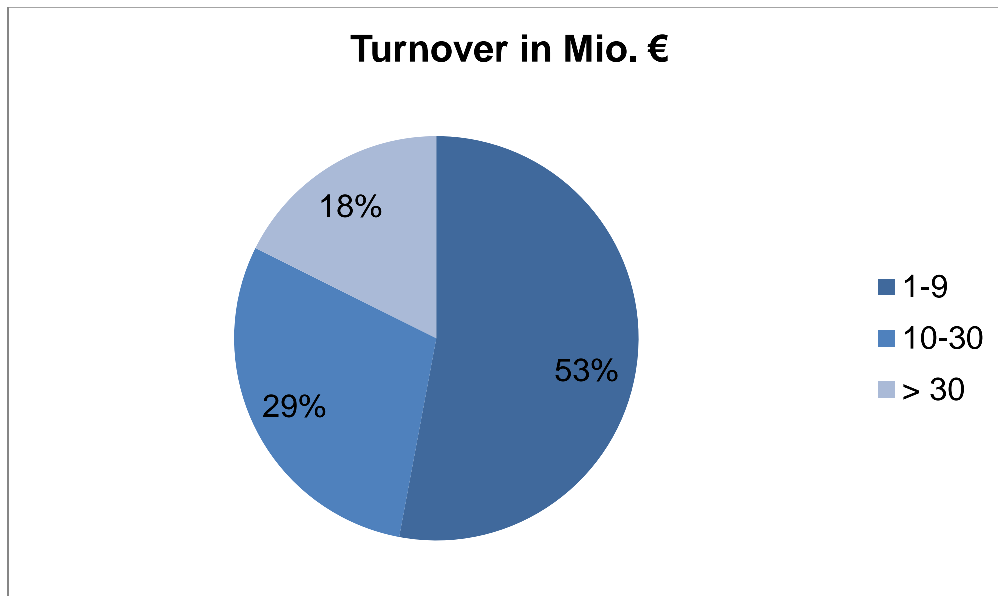
In this chapter the interviews of the sample companies are analysed and examined to find out to which extent they use corporate governance. Furthermore, the author evaluates the significance of corporate governance in these companies and which elements or instruments the interviewed family companies use. In addition, the results of the interviews are compared to the assumptions drawn in chapter 4.8 from the theoretical findings. Therefore this chapter is divided into general information, findings of business governance and family governance. Finally, the results are summarised.

General information

In this part general information about the companies are displayed. In addition, the interview partners are asked whether they know the GKFU and what benefits they see.

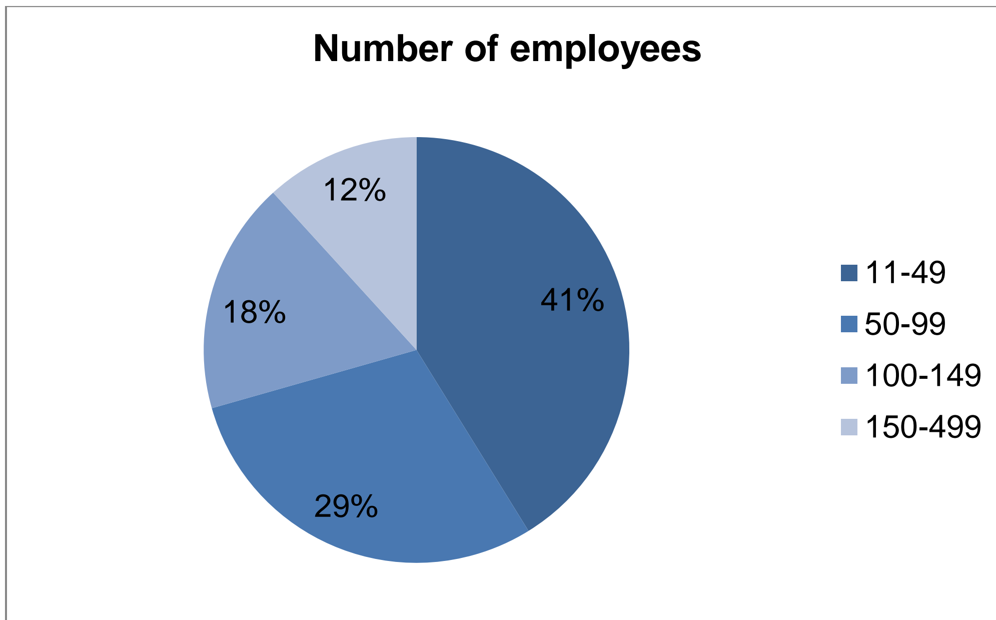
The sample group consists of seventeen companies, which range from eleven to 499 employees and an annual turnover between one million and fifty million Euros. In Graph 1 the distribution of the turnover range can be seen. 53 percent

of all companies have a turnover of less than nine million euros. In addition, 29 percent generate a turnover between ten and thirty million euros, while 18 percent of the sample group earn more than 30 million euros.



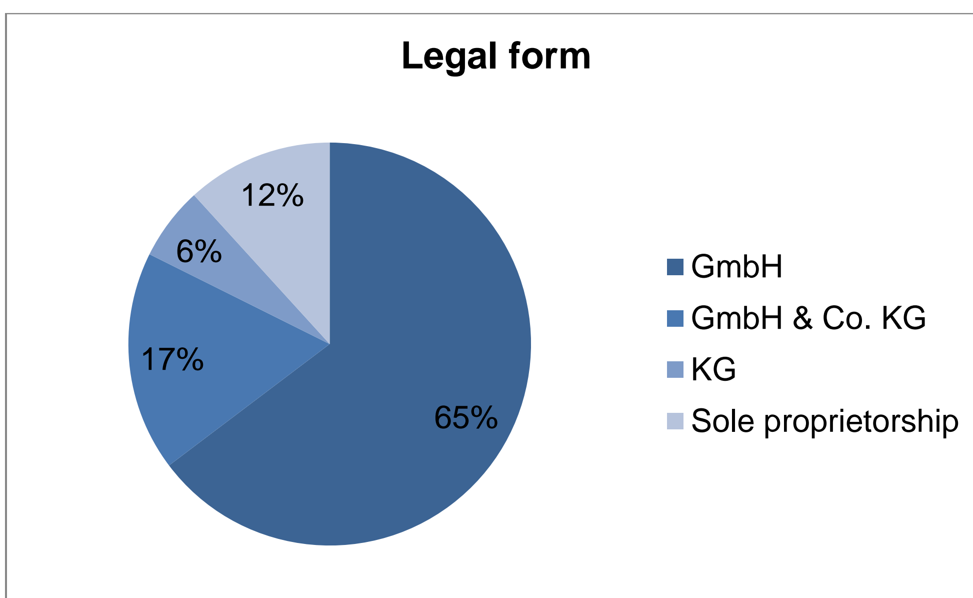
Graph 1. Turnover

Furthermore, the companies can be also classified according to their number of employees. The author defined the object of investigation as medium-sized family businesses with eleven to 499 employees. As it can be seen in Graph 2 41 percent of the sample companies employ between eleven and 49 people. Besides, 29 percent of the interviewed companies have up to 99 employees and 18 percent employ up to 149 employees. Between 150 and 499 employees are working in 12 percent of the companies.



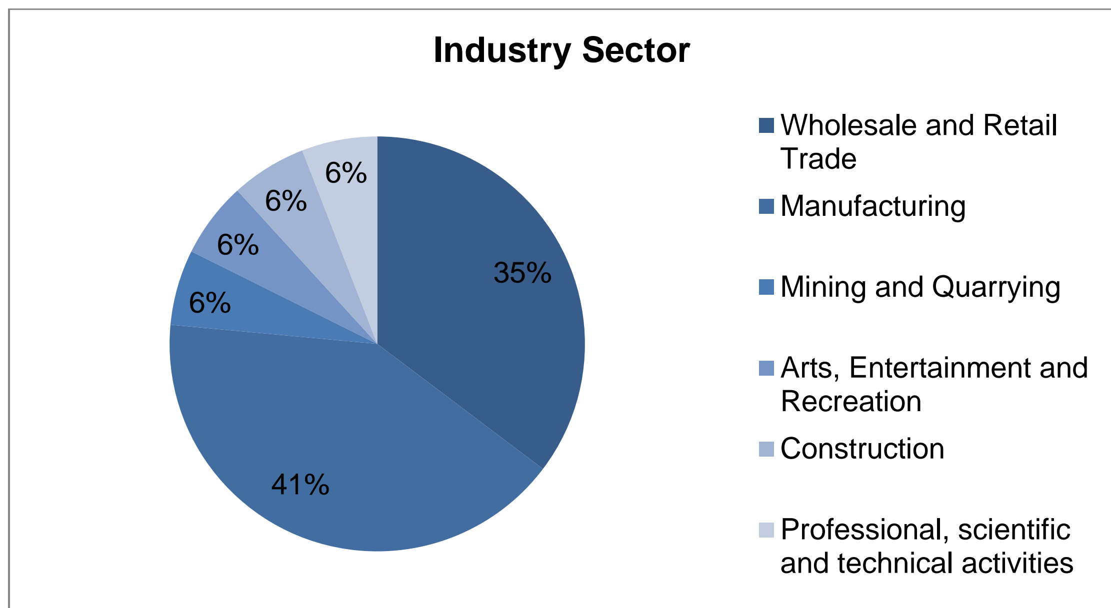
Graph 2. Number of employees

The choice of the legal form also influences corporate governance. In chapter 4.3.1 it was figured out that medium-sized family businesses are mainly led in the legal forms of GmbH, GmbH & Co. KG and as sole proprietorships. Therefore, Graph 3 highlights this aspect. Eleven out of seventeen sample companies are registered as a GmbH, which equals to 65 percent. Besides, seventeen percent of the companies have the legal form of a GmbH & Co. KG and twelve percent are a sole proprietorship. One company out of seventeen is a KG. However, the GmbH & Co. KG is a special type of the KG.



Graph 3. Legal form

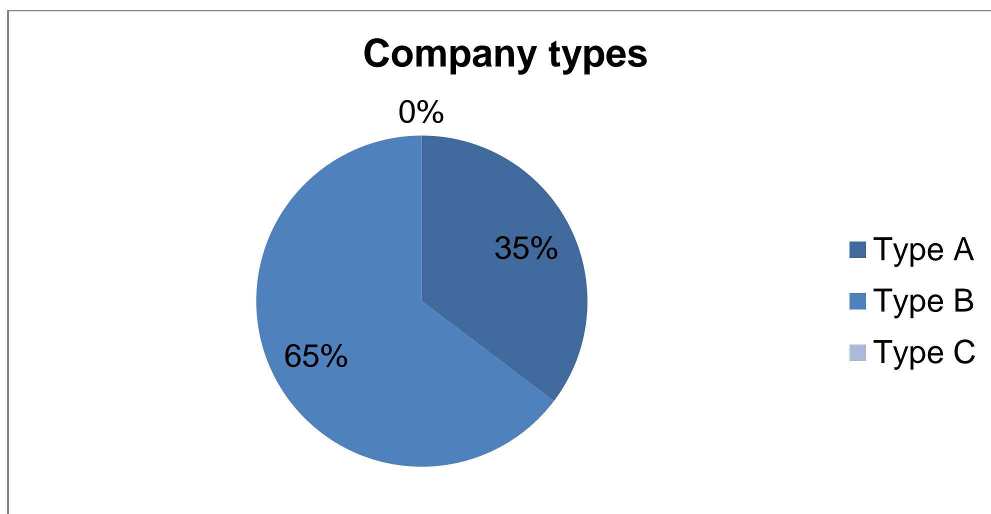
In addition, the sample companies can be classified according to industry sectors, which are determined by the statistical classification system of economic activities in the European Community. Graph 4 shows that more than three-quarters (76 percent) of the companies are located in the manufacturing or wholesale and retail trade sector. One company is located in each of the remaining industry sectors. These are the mining and quarrying industry, the arts, entertainment and recreations industry, as well as construction and professional service industry.



Graph 4. Industry sectors

As it was explained in chapter 2.3 family companies can also be classified according to the typology of Becker, Staffel & Ulrich (2008a). Therefore, six companies of the sample group can be classified as type A (Graph 5). These are family companies that are owned and managed by an individual. All of these companies range among the smallest sample companies regarding turnover. In addition, Type B is the correspondent type for the remaining eleven companies (Graph 5). These are companies, which are either owned by an individual and managed by the family or owned by the family and managed by an individual. Type B includes all company sizes regarding turnover, as this class is wider. The third case is that management and ownership are in the hands of a family. None of the companies can be allocated to Type C, as none of the interviewed enterprises are externally managed (Graph 5). As it was stated in chapter 3.1.1

this means that Type A companies are less likely to need governance mechanisms as ownership and management are unified in one person. In this case information asymmetries are avoided and no agency costs occur. This is equally true for companies, in which all owners held the same number of shares and are all equally participating in the management of the company. From the eleven Type B companies, only two family companies have equal shares and management competencies, while in all others the principal-agent conflict can emerge. Therefore, those two family businesses and all Type A companies have the most efficient governance structure without any agency costs. According to the principal-agent theory this means that the remaining ten family companies can be highly influenced by principal-agent conflicts and therefore need corporate governance mechanisms.



Graph 5. Company types of the sample group

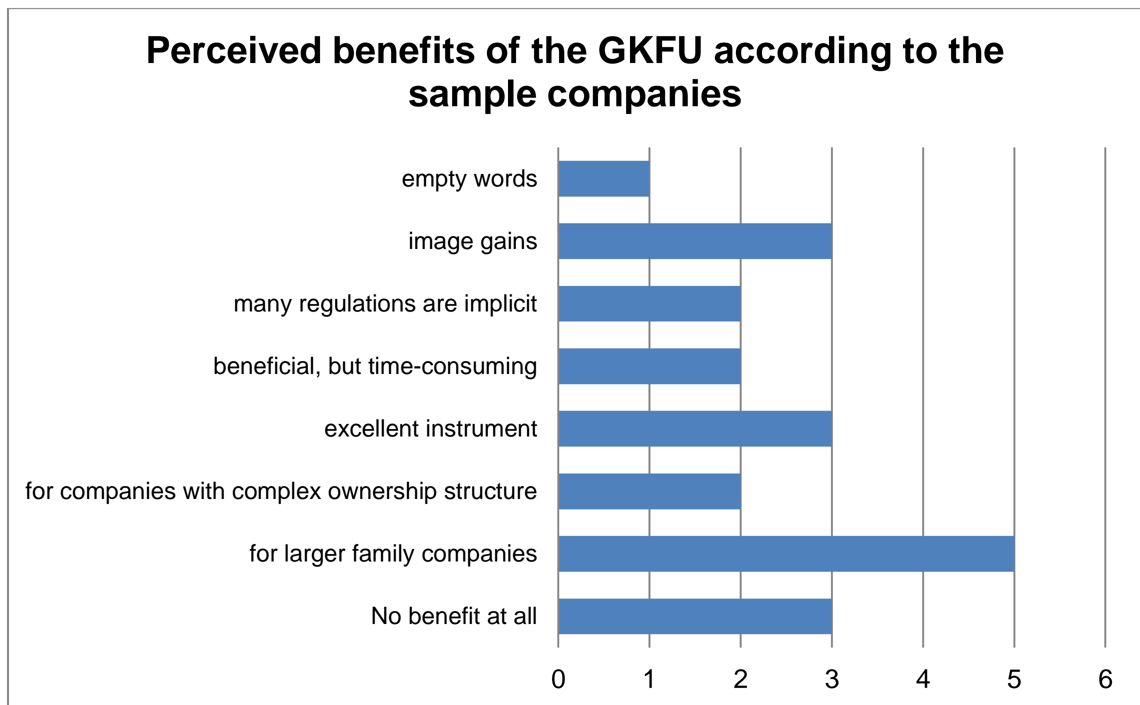
After highlighting some general information, which was gathered from the interview companies, the author aims to analyse whether the sample companies know the concept of family business governance and the GKFU. Furthermore, the implementation of a code is also examined. Seven of the interview partners stated that they do not know family business governance and the GKFU. However, ten out of seventeen companies already have some knowledge of corporate governance in family companies. Moreover, it became apparent that all of the interviewed companies with a turnover of more than thirty million euros know the concept, while only 60% of the companies with a turnover between ten and thirty million euros are familiar with it. In addition,

44% of the smallest companies in the sample group know family business governance and the GKFU. This shows that the bigger a family company is the more likely the people behind it have dealt with corporate governance. The author also wanted to know from the interview partners if they have implemented the GKFU or any other code with good governance principles, but none of the interviewed companies have actively taken measures to implement a corporate governance code in their organisational structures. Nevertheless, six companies explained that they have implemented parts of the GKFU or other governance principles in their company; in particular they mentioned the memorandum of association, which often clarifies certain governance principles in these companies. Again these are the bigger companies of the sample group. Except for one company these six companies all have more than a ten-million euro turnover. All three companies with more than a thirty-million euro turnover and two companies with ten to thirty million euros are included in this group. This confirms the findings above that larger companies are more likely to deal with corporate governance. In addition, four companies manifest interest in the GKFU and corporate governance in medium-sized family companies. One of these companies mentioned as a reason conflicts between the two brothers who own and manage the company. The interview partner is of the mind that if the owners had dealt with corporate governance mechanisms the conflict potential could have been decreased. Besides, the eleven companies, which said that they do not have any fragments of corporate governance established, have different reasons how they justify their refusal. Even if they assume that they do not have governance structures in their organisation, there might be fragments, which are unconsciously part of corporate governance. These elements are highlighted below. Three companies stated that they are too small to implement corporate governance mechanisms and two other companies name the simple family structure as a reason for not having specific corporate governance. In addition, one interview partner said that they were aware of an external buy-out when they founded the company. The reason for this is that the children of the owner couple were not willing to take over the responsibility. Furthermore, two companies said that they see no necessity for corporate governance in their company. For one of these two companies corporate governance and the GKFU are just regulating matters of course, while the other

interview partner perceives corporate governance as an additional burden, which creates extra work without any benefit. Another interview partner is not reluctant to corporate governance in general, but he thinks that this is a topic, which should be determined and arranged individually by every owner. Therefore, he rejects the GKFU as a generally applicable code for all kinds of family businesses. The last two companies each have no time for corporate governance due to the day-to-day business or the implementation is blocked by one side of the owners, as they do not want to concern themselves with this topic. However, most of the companies assumed that they would change their attitude towards the implementation of corporate governance if the company would grow significantly or the ownership structure would become more complex. Generally speaking, the interviewed companies perceive corporate governance more as an issue for larger companies.

Moreover, the author wanted to know if the interviewees think that the governance code for family businesses seems to be useful for medium-sized companies and what benefit they might see. This might help to answer the research question whether the GKFU is suitable for medium-sized family businesses and why the owners should implement corporate governance in their businesses. Even if some of the interview partners do not know the GKFU, they mostly have an opinion about it, after the author had explained shortly the concept. Three of the sample companies are an exception. They do not see any benefit from the GKFU and the underlying concept, as they do not know the code. This equals to around 18 percent of the sample group. In addition, almost a third of the companies (29 percent) think that the code has no benefit for medium-sized companies, as they are. However, these interview partners definitely see advantages for larger family businesses. This corresponds with the view of two companies, which argue that the GKFU is suitable and meaningful for large family groups with complex ownership structures, which often have diverging interests due to the heterogeneous group of shareholders. They often name companies like Henkel or Dr. Oetker as examples for companies that need a code. Furthermore, the GKFU seems to be quite hard to implement in medium-sized family companies. Two of the seventeen companies (12 percent) name the efforts as a main reason why they would not establish a

code in their company. They see the documentation requirements and the personnel-intensive document development and management as the main obstacles, which are not compensated by the benefits of corporate governance. Moreover, some of the guidelines of the GKFU are perceived as being quite implicit. Therefore the implementation of the code is not really beneficial for two companies. In particular, the succession and resignation guidelines or recommendations concerning transparency are not seen as necessary, because these topics are determined anyway in the memorandum of association or are claimed by financial institutions or public offices. In addition, having such a code is perceived by one company more as empty phrases than real benefits. The interviewee stated that reasonable family entrepreneurs always have led their company in a way that a balance of power is given, even without corporate governance. Besides, three companies (18 percent) think that the implementation of the GKFU is more an image gain for the company, than a support measure for the long-term success of the company. Ultimately, four interview partners (24 percent) endorse the benefit and meaningfulness of the GKFU. One interview partner stated that the code can provide incentives how to define the position of the family, single family members and the company. The company and the family members, who are immediately dependent on the company rank first and then the other family members have to subordinate. If all family members are aware of their positions and the expectations they face and that they can have, many conflicts could be avoided among the family. This would prevent many family companies being ruined by internal disputes or because family members wanting to get rich on the expense of other family members and the company. Furthermore, they see the code for family companies as an excellent tool for owners, who face the responsibility of a long-term and healthy cooperation of business and family. In total, the code is meaningful for medium-sized companies for a majority of the interview partners and eleven out of seventeen interviewed persons speak out positively on the code. This equals to around 65 percent. As eighteen percent of the interviewed companies have not made any specifications about the code, only seventeen percent of the sample group think that the GKFU does not have positive impacts on family companies. Graph 6 summarises shortly how the sample companies perceive the advantages of the code.



Graph 6. Perceived benefits of the GKFU according to the sample companies

Business governance

In this chapter the author analyses all aspects of the interviews regarding the business governance. This includes the management and ownership structure, instruments of corporate governance and the establishment of supervisory boards. In addition, the degree of transparency is analysed.

First of all, the management and ownership structure of the companies are examined. In 47 percent of all cases ownership and management are unified in the same persons. This can be either a single managing partner or several owners who are managing their company together. In this case the principal-agent conflict is minimised and corporate governance mechanisms are less needed. In five sample companies there are additional owners, who are not represented in the management. Furthermore, one company has a different owner than manager. The company is owned by the mother, while her son is in charge. In contrast, two companies have additional managers in the executive board. In one case the owner's wife support the management. In the other company, the husband of one of the partners is also in charge. Nevertheless, these are members of the family and therefore no external management. As it was stated in a sup-chapter of 4.3.1 about the executive management, medium-

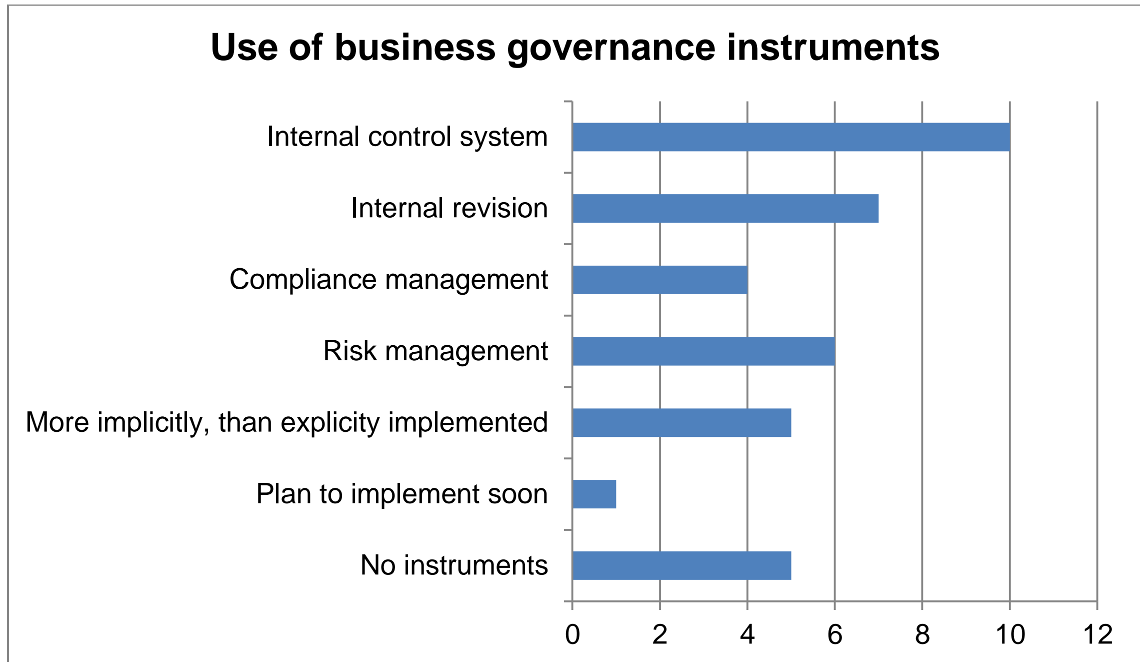
sized family businesses are mainly led by the owners. This can be verified by the sample group, as none of the companies have installed an external management. Moreover, in all sample companies, in which differences between management and ownership are existent, there can be governance problems. Therefore, these companies should have corporate governance mechanisms, which avoid or prevent typical problems of the principal-agent conflict.

Besides, the situation of the sample companies regarding the implementation and existence of supervisory boards is analysed. As highlighted in chapter 4.3.1 obligatory boards are mainly irrelevant for medium-sized family companies, due to size limitations. However, the theoretical findings show that the control is mainly exerted directly by the owners of the company and not by boards (Becker, Baltzer & Ulrich 2008, p. 59). This is strongly proven by the empirical findings. None of the seventeen interviewed companies has either an obligatory or a voluntarily implemented supervisory board. In 53 percent of all cases the interview partners reasoned it with the fact that the managers bear the responsibility. In addition, these managers are also all owners of their family companies. Therefore they have a good position regarding information supply and control needs. Moreover, two interview partners explicitly say that they are only accountable to themselves. Nevertheless, the interview partner highlighted that they are supported by external consultants, such as auditors, lawyers and tax accountants. Furthermore, three companies explained that they have regular meetings with all shareholders and additional consultants if necessary. In these companies the succession already took place and the next generation is in charge. However, in all three cases a certain amount of shares is still possessed by the first generation. Therefore, these regular meetings are necessary to provide information and to agree about investments or the future position of the company. In addition, in these meetings the participants analyse the current situation of the company. As explained in chapter 4.3.2 these meetings correspond with the shareholders' general meeting. This means that the persons, who participate in this meeting, are the highest decision-making unit in their company. They have an extensive authority to give directions towards the management. In all other sample companies there is no separation between ownership and management, therefore there is no need for

shareholder meetings. Two of the above mentioned companies and another one also stated that they would be willing to establish a supervisory board in future in case the conditions would change significantly. This means that if the ownership structure becomes more complex with more partners. Another reason would be an external management. Then a board would be filled with family members to control and monitor the management. In addition, these companies mentioned that they would be also prepared to implement a board, which acts as an adviser, in case there are severe conflicts among the managing partners. However, all three interview partner highlighted that an external supervisory board would rather advise than control the management. The board should advise in essential and important decision-making.

The central instruments of business governance are internal audit, internal control system, risk management and compliance management. In chapter 4.4.1 the instruments are explained in detail and the reasons why they are necessary are elucidated. Due to the theoretical findings it can be assumed that there is a lack of governance instruments in medium-sized family companies. This results from the fact that the principal-agent conflict, which is the basis of governance instruments, is only rudimentary. Furthermore, the more the family business is adapted to corporations the more necessary these instruments become. In contrast, smaller companies also have lower control and monitoring needs. Therefore, Lange (2005) figured out that business governance instruments, such as risk management, compliance management, internal audit and internal control system, are not developed and used sufficiently, but decisions are mainly based on intuition (Fahrion et al. 2012, p. 204). This finding can be verified by the fact that five interviewees stated that they use these instruments more implicitly than explicitly. In addition, one of the interviewed people said that an entrepreneur should know the risks exactly without having extensive instruments. However, twelve out of seventeen (71 percent) sample companies have at least one of the instruments. Moreover, six companies (35 percent) use some kind of risk management. This is not always professionally developed, but at least these companies are aware of the most important risks and how to cope with them. In addition, four respectively seven companies use compliance management measures and use the internal audit

to improve the business processes. An internal control system is used by 59 percent of the sample group. The main procedures and measures, which are used by the companies, are agreements, approvals, authorisations, guidelines, credit limits, accounting control and the four-eyes principle. Graph 7 highlights briefly the usage of business governance instruments in the sample group.



Graph 7. Use of business governance instruments

Another important parameter to measure the significance of corporate governance in medium-sized family companies is the degree of transparency. Nowadays it is quite important to organise processes in a transparent way. In addition, with increased transparency the companies have better financing options due to limited access to the capital market (Frasl & Rieger 2007, pp. 20-29). However, family companies are rumoured to be reluctant to display more information than necessary. This view can be confirmed by the empirical findings. Thirteen companies out of seventeen (76 percent) reject strong disclosure obligations and prefer to be only as transparent as they have to be. For these companies it is important to be as reticent as possible. They even see the disclosure obligations from public authorities and the Federal Statistical Office as critical. In addition, they often do not use external financing. Therefore, transparency towards financial institutions is not that important for them and they even consider it as critical. In comparison, only 24 percent think that

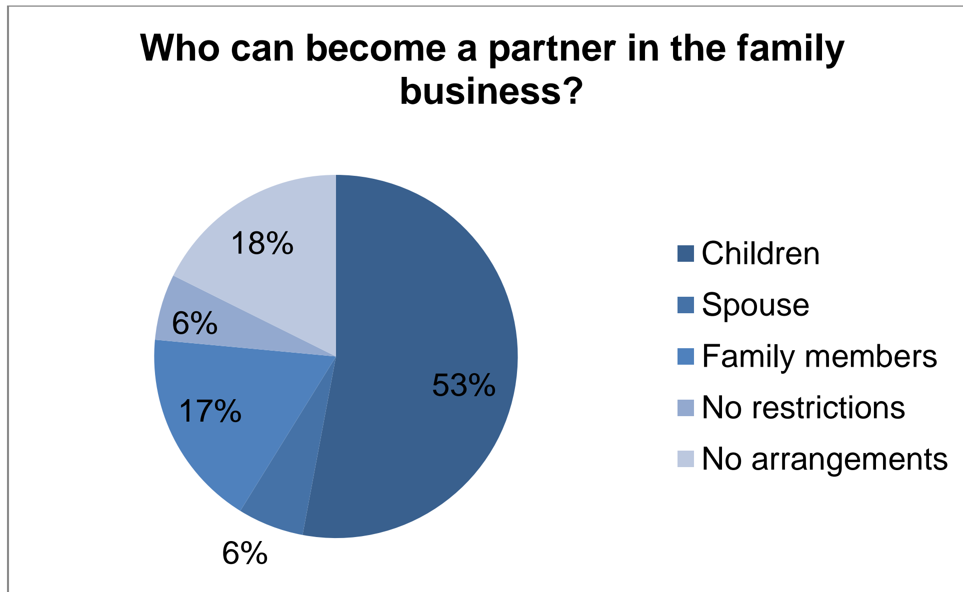
transparency is necessary and important. One of the interview partners describes transparency as a win-win situation. The company achieves better conditions and receives understanding in case the economic situation of the company is not that good. Furthermore, they see transparency as an essential tool to build trust and authenticity by an open communication. This willingness to be transparent also includes quality requirements and in particular openness and honesty towards the customers and employees. Noticeable is that these companies belong to the group of larger companies. All three companies with more than a 30-million euros turnover and one of the companies with a turnover between ten and thirty million Euros stated that transparency is important. Again this shows that the more a family company adapts to corporations the more corporate governance mechanisms are implemented.

Family governance

The chapter family governance highlights the findings about succession, family activities, solidarity, conflict management, as well as the social commitment of the companies.

Companies with good corporate governance have determined who is allowed to become a partner and owner of the company. In the sample group only three out of seventeen companies have not yet determined who can receive shares of the family company. Furthermore, in 53 percent of the companies it is stipulated that only the children of the current owners can become partners. The spouses are explicitly excluded. This can help to prevent the fragmentation of the company, as the shares remain in the hands of fewer people. In three companies either the children or a spouse is allowed to join the company. In addition, one company determined that only a spouse can join. In this case there are no children in the family who could take over the responsibility. The last company has not made any restrictions regarding the entry into the family company. This means that externals also can be engaged in the business. Graph 8 highlights that 82 percent of the sample group have thought about that question. In 93 percent of the companies, which have arrangements, the access to the company is limited to family members. However, the author is not able to

identify any interdependencies between the size of the company, the legal form and the regulations in the question who is allowed to join the family company.



Graph 8. Who can become a partner in the family business?

A further topic of interest was the procedure when a partner would die or want to leave the company. The author was interested in whether the interviewees determined what happened with the shares. Fifteen of the interviewed companies (88 percent) stated that they forward the shares in case of the death of a partner via the classical descent according to the before mentioned regulations. Nevertheless, some of the companies have special regulations regarding the heritage. One company pass the shares to the children in equal shares, when either both children are working in the company or none of them is in charge. However, if only one of the children bears the responsibility of the family company, the shares would be passed completely to this heir. The remaining heir is paid with private assets. This regulation intends to prevent conflicts due to different objectives regarding the company. In addition, the interview partner states that it would not be fair if one bears the total risk and responsibility, while the sibling only receives the profits. Furthermore, the one in the management would have taken into account the opinion and decisions of the other heir. Finally, this regulation also reduces the fragmentation and keeps the company together. Two interview partners highlighted that in case the partners have no children, but a spouse, he or she would be indemnified. However, the shares would be returned to the remaining owners. Again this

reduces fragmentation and the threat of alienation. A further approach was that the company shares can explicitly only be passed on to one successor. However, the interview partner has not specified what happened if there are several heirs. In one company the succession has to take place with a mutual agreement between the two owner families. In the case of the resignation of a partner, the sample companies named different options. In ten out of seventeen companies the shares have to be offered first to the other partners, before they are offered on the market. This right of pre-emption assures that the company is still possessed by the family. One interview partner explained that in case of a resignation of an owner, the “Stuttgarter Verfahren” is used to evaluate the shareholder value. This is a fiscal procedure to evaluate unquoted shares of a corporation. As it is an excess profit compensation procedure, the shareholder value is calculated as the value of total assets plus an additional charge for above-average profits. However, in companies with only one partner a sale to externals is the most probable solution. This option was named by five of the sample companies. These companies have either no children or they have nothing decided yet, as the children are still quite young. In addition, two interview partners stated that shares can be taken over by all family members, but not by externals. These companies want to assure the influence of the company on the family and are not that afraid of a fragmentation.

Moreover, the author explored the succession planning of the interviewed companies. The succession is already fixed in five companies (29 percent) of the sample group, but in the remaining twelve companies (71 percent) there are no arrangements made. However, it has to be said that in nine of these twelve companies the succession has already taken place in the last few years. Therefore, the next generation is not yet prepared to assume responsibility. As mentioned before five companies already have detailed plans for the succession. Two companies tend to a disposition of the company, as there are in one case no children and in the other case the children do not want to continue the company. One company draws on both external managers and the own children to tie them to the company. In this way they have all options, but this can also lead to conflicts due to disappointed expectations. In another company the family is discussing at the moment how they should organise the

succession. Finally, one company has a detailed testament, which specifies the succession.

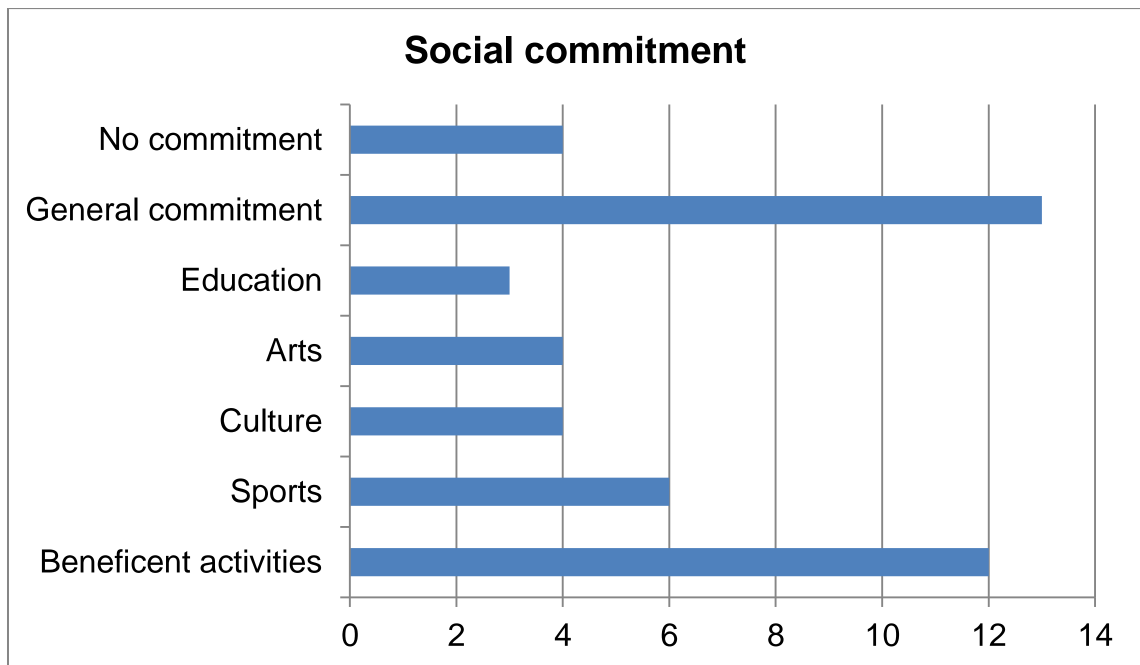
Besides the succession, the author also examined the conflict management of the participating companies, as conflicts are much more probable to occur in family businesses than in public organisations. This results from the overlapping of family and company, as explained in chapters 2.3 and 4.4.2. Graph 9 shows that five companies do not have specific procedures if conflicts among the management and owners come up. In three of the companies there is only an owner-manager. Obviously a conflict management is not necessary. One interview partner stated that there have not been any conflicts among the married couple who is leading the company. In addition, the two daughters leave the company as limited partners at the end of 2014. Then only one person owns and manages the company, which makes a conflict management needless. Furthermore, one company handles conflicts by determining one person who is responsible and who makes the decisions. The majority of companies solve their conflicts with discussions and dialogues. These seven companies do not want to be supported by external mediators and rather solve it internally. Moreover, four companies have determined that in case of severe conflicts they consult an external mediator. Often this mediator is a consultant or the auditor of the company. Even if only four companies are prepared to consult an external, it has to be acknowledged that more than 70 percent of the sample companies have determined specific procedures on how to solve their conflicts on a rational basis. However, two companies mentioned that they have conflicts, which can hardly be solved, even with external support. One of the interview partners even stated that their conflicts can barely be solved, as the two owner-managers do not speak to each other. He is of the mind that this conflict leads to an asset stripping of the company in the medium-term. In addition, other interviewees also highlighted that they know some examples of family companies in their environment, which are destroyed due to internal conflicts. These findings show how important the solidarity among the family members and with the company is for the longevity of a family company. Besides, conflicts bind important resources of the owners and managers, which

can result in a poorer performance of the company. Furthermore, conflicts might decrease the reputation of the company.

Graph 9. Conflict management

The most important instruments of the family governance are family activities and family education. However, it has to be said that only one of the companies has a decent educational system for the owners, successors and other family members. The reason could be the fact that medium-sized family businesses might still be too small for such professional and extensive systems. There are probably not enough participants for trainings and other events. However, one company organises regular trainings. Furthermore, the author analysed the family activities of the sample group. It became evident that only four out of seventeen companies have basic approaches to the instrument of family activities. Most of the families have common activities, but not necessarily related to the company. These activities include common excursions, short journeys or eating out. However, with these common activities they aim to strengthen the solidarity and the relationship among the family members. This is also supported by the fact that eleven interview partners highlighted the importance of solidarity and trust within the family, as this helps to manage the family business.

Besides family activities, the social commitment or family philanthropy is also an important aspect of family governance. As stated in chapter 4.4.2 the theoretical findings suggest that the entrepreneurial families want to give a part of their success back to society. In most cases they do not expect an economic benefit from their social commitment. Furthermore, the theory shows that family companies mainly get involved in projects or associations in the region they come from. In the sample group 76 percent are socially committed, while 24 percent are not involved. However, one of these companies highlighted that they try to shift their social commitment to the private side, as then both owner families can support the organisations and projects they like. In chapter 4.4.2 it was highlighted that 44 percent of the entrepreneurial families are committed to social concerns. However, this figure is highly outperformed with 76 percent. The commitment of the sample group ranges from education, arts, culture and sports to beneficiary and Christian projects and organisations. In contrast to the theoretical findings that companies are mainly committed to educational issues and then to arts, culture and sports, the interviewed companies are more beneficent. Twelve out of thirteen companies (92 percent), which gave insights into their social commitment, are beneficent. Furthermore, three companies also emphasises that their company is based on Christian values and therefore they are supporting Christian projects and organisations. Nevertheless, the interviewed companies are also committed to education (23 percent), arts (31 percent), culture (31 percent) and sports (46 percent). In addition, many of the interview partners stated that they are focusing on projects and organisations, in which they, family members or employees are involved. They often have a personal relationship to the issues that they are fostering. All in all, social commitment seems to be an important aspect for these medium-sized family companies.



Graph 10. Social commitment

Summary of findings

In this chapter the findings above from the general part, the business governance and family governance aspects are summarised. Furthermore, the author compares them with the assumptions drawn in chapter 4.8. This should show whether or not the theoretical findings can be verified by the empirical results.

In addition, the individual interview partners of the sample group are evaluated regarding the significance of family business governance in their companies. This answers how important family business governance is for German medium-sized family businesses, which is the main research question. Therefore, the relevant aspects, elements and instruments of family business governance are listed and compared with the answers from the interview partners. For each company the achieved percentage is calculated. The author determined that with a value of 60 percent, family business governance has a high significance in the sample company. Table 6 shows the relevant parameters for the calculation.

General parameters	Business governance	Family governance
typology	supervisory boards	family representation
implementation of fragments	risk management	who can become an owner
	compliance management	succession
	internal audit	regulations at death
	internal control system	regulations for resignation
	transparency	family activities
		family education
		family philanthropy
		conflict management

Table 6. Parameters

Based on these parameters it can be determined that in five companies family business governance has a high significance. These companies are Company G (82 percent), Company H (65 percent), Company I (76 percent), Company J (82 percent) and Company M (63 percent). The values in brackets show how many parameters are fulfilled by the company. The other companies all have values below sixty percent and therefore the significance is low. Their percentage rates range between 25 and 53 percent. Noticeable is the fact that three out of the five companies again belong to the group of the large sample companies with a turnover of over thirty million euros and more than hundred employees. In addition, the two other also range among the larger sample companies regarding employee numbers, but Company M is a rather small company concerning the turnover. Furthermore, this company is a Type A company with an owner-manager. This fact makes it even more remarkable that they hold family business governance dear. Moreover, except for Company M, the mentioned companies all have variances in the ownership and management structure. Therefore, corporate governance mechanisms help to prevent and solve principal-agent conflicts, which might occur. These findings confirm the findings above. For these companies it could be also interesting to compare their regulations with the principles of the GKFU in order to develop their governance in an even more professional way. At the moment many regulations are based on intuition. The GKFU could give valuable instructions and hints to them. Moreover, the parameters, which are most represented in the sample group are the regulations at death with sixteen nominations, followed by the

ownership definition and regulations regarding the succession and resignation with each fourteen nominations and the internal control system with ten nominations. Furthermore, family philanthropy and conflict management also have a high weight in the sample group with thirteen respectively twelve nominations. This list shows what is important for medium-sized family companies. All companies have made certain regulations in case of death of the owner. This regulation assures the longevity and survivability of the family business, as well as it guarantees stable circumstances, which communicate reliability and continuity for business partners.

In the following the assumptions from chapter 4.8 are compared with the findings above. This highlights in how far the theory corresponds with the reality and summarises the most important empirical findings.

The first assumption highlights the desire of family companies to be successful in the long-term and to maintain the influence of the family in the company. This issue was not analysed above in detail, but thirteen companies stated that they aim to remain a family business and twelve interview partners pointed out that the long-term success and longevity of their family company is an important objective for them. Therefore, with over 70 percent of the companies the first assumption can be verified. In addition, this is supported by the fact that eight companies stated that an economic independence is very important for them. They want to avoid that externals, in particular financial institutions, gain influence on company decisions. Another aspect of the first assumption was the solidarity among the family members and with the family business. For almost 60 percent this is an important aspect, as without strong solidarity and trust a family business can hardly be managed. When the solidarity and harmony are missing, conflicts might appear more easily. This is the case in one of the sample companies, in which the two owner-managers do not even talk to each other. The interview partners stated that this probably results in the asset stripping of the company.

Furthermore, the author assumed that medium-sized family businesses are mainly led by the owners themselves. The empirical results show that this assumption is also correct. None of the companies has an external

management. However, the managers are not always identical with the owners. As shown above, in eight companies there are variances between ownership and management. In these companies the principal-agent conflict can appear and therefore corporate governance is needed. It is also totally correct that medium-sized family companies are mainly organized in the legal forms of GmbH, GmbH & Co. KG and as sole proprietorships. Graph 3 shows that 65 percent of the sample companies are a GmbH and 17 percent are a GmbH & Co. KG. Besides, one company is a KG and two companies are sole proprietorships. Above all, it is true that the more the ownership and management structures are adapted to corporations, the more corporate governance elements and instruments are used. As shown above, mainly for the larger participants of the study, corporate governance has a high significance. This is due to the fact that they have more often implemented governance instruments, have decent conflict solving strategies and have clear guidelines and regulations for succession and ownership.

In addition, it became apparent that in companies with unified ownership and management, the need for control and monitoring is less given, as assumed in chapter 4.8. An individual owner-manager is hardly faced with principal-agent conflicts and has no need for extensive guidelines. A further fact is that the companies are directly controlled by the owners and not by supervisory boards. As shown above none of the companies have an obligatory or voluntarily implemented supervisory board. In many cases the ownership and management structure is not very complex and there are many overlaps between the two functions.

Even if transparency is an important aspect of corporate governance, it could be verified by the empirical findings that medium-sized family businesses are quite reluctant to disclose information. The majority of companies (76 percent) reject strong disclosure obligations. Again it turns out that the larger the company the more the interview partners are in favour of transparency. The reason for this general reticence might be the fact that external financing is not that important for medium-sized family companies. Furthermore, the families behind these companies often want to protect their privacy.

A further assumption concerns the governance instruments both for family governance and business governance. The theoretical findings show that in medium-sized family companies there is often a lack of these instruments. This could be explained by the fact that decisions in medium-sized family companies are mainly based on intuition. Actually, at least one interview partner stated that they base their decisions on intuition and having a good feeling about it. Nevertheless, the study shows that 71 percent of the sample companies have at least one of the business governance instruments: risk management, compliance management, internal audit or internal control system. Furthermore, twelve out of seventeen companies have strategies on how to solve conflicts among the owners and managers of their business. In contrast, the family governance instruments family activities and family education are barely used. Only one company executes family education measures and four companies have common activities in the family to strengthen the solidarity. Despite this quite extensive distribution of business governance instruments and the rather weak development of family business governance instruments, it has to be said that in some cases the instruments are rather simple and not professionally developed, though it cannot be expected that the instruments are as professionally developed as in large family companies. This would extend the resources of a medium-sized family business.

The last assumption deals with the family relationships and conflict management. In the empirical research it became obvious that conflicts in family businesses are ubiquitous, but not always threaten the existence of the company. Conflict management can help to prevent and solve severe conflicts and a majority of the sample companies has developed a strategy on how to proceed in case of conflict. This ranges from open discussions, one single decision-maker to external mediators, who arbitrate between the parties. As assumed, the companies in the sample group prefer simple solutions for conflicts rather than an extensive conflict management. Therefore, this assumption can also be confirmed.

All in all, it has to be confirmed that corporate governance in medium-sized family businesses is not (yet) developed professionally. However, as assumed, they know the significance of family business governance and have intuitive

approaches to maintain the long-term success of their business. Furthermore, it has to be stated that there are quite huge differences between the interviewed companies. As shown above, the larger companies with a higher turnover and more employees have in total a higher awareness and state of implementation than the smaller sample companies. This finding arises from the fact that in those smaller companies the need for corporate governance mechanisms is often minimised due to the unity of ownership and management.

6. Conclusion and recommendations

The purpose of this thesis was to examine the importance of corporate governance in German medium-sized family businesses and to gain a deep understanding of the elements and instruments of family business governance. In addition, a goal was to analyse the level of implementation of family business governance in medium-sized family businesses.

In the theory part family businesses, corporate governance in general and family business governance with its elements and instruments were explained. Based on the theoretical framework of the principal-agent theory, the stewardship theory and the three circle model it could be concluded that there is a broad variety of family companies, which all have different requirements concerning corporate governance. Furthermore, the objectives, elements and instruments of business governance and family governance were examined to show, what benefits and characteristics they have for medium-sized family companies. In addition, the governance code for family businesses was highlighted as the main tool for family companies.

The empirical part of the thesis was based on the interviews, which were conducted with seventeen medium-sized family businesses. The results were both compared to each other and to the theoretical findings. The main focus of the empirical research was the analysis of the current situation of the sample companies to evaluate the significance of corporate governance for them. The theoretical framework was used to understand the differences between the individual companies.

The assumption that medium-sized family businesses in Germany have not (yet) developed their governance in a professional way was supported by the empirical findings. Furthermore, these companies know about the significance of good governance and already have certain regulations and instruments to improve their governance. However, it has to be concluded that there are discrepancies between the smallest and larger participants of the study. One of the main findings was that the larger the company regarding employee numbers and turnover are the more likely they have implemented corporate governance mechanisms. Moreover, it has to be said that the ownership and management structure of the companies also have a vast impact on the state of family business governance in these companies. The more complex these structures and the organisation are the more instruments and elements of family business governance are realised. Besides, the author recognised a gap between the perceptions in theory and practice about the necessity of family business governance. Medium-sized family businesses do not necessarily see the benefits of corporate governance for their business, but rather associate it with larger family groups.

Ultimately, the study has shown that family business governance has significance for medium-sized family businesses in Germany. Nevertheless, the author would rather evaluate family business governance as a voluntary obligation than a necessity. In particular for the family companies with equal shares of ownership and management family business governance cannot be seen as a necessity, but the other family businesses can support their success with family business governance.

Eventually, this thesis is mainly about the significance of family business governance in medium-sized family businesses. However, there are many possibilities for further research about corporate governance for family companies. First of all, it could be analysed how medium-sized family companies can implement and establish corporate governance mechanisms in their organisation. On this basis, a study could develop exact guidelines in particular for medium-sized family businesses about corporate governance. For medium-sized family companies it might be quite helpful to facilitate a code, such as the GKFU, as many of the recommendations are quite ambitious for

medium-sized family companies. A majority of the recommendations and demands are formulated as absolute necessities, even if they are only applicable with huge efforts for medium-sized family businesses. This might limit the benefit for these companies and they rather abstain from corporate governance. Furthermore, in a further study the object of investigation could be narrowed down to family companies with employee figures between fifty and 499 persons or by excluding medium-sized family companies with simple ownership and management structures. This would increase validity of the findings and help to get a better idea of corporate governance in medium-sized family businesses, as it became apparent that larger family companies with more complex structures tend to have a major need for family business governance than companies in the hands of an individual owner-manager. Besides changing the object of investigation, a further study could increase the number of participants to enhance the representativeness of the findings. Finally, it might be interesting to investigate certain industry sectors, as they might be influenced by specific characteristics and factors that affect corporate governance. In this context, transparency is a particularly interesting aspect, because the interviews determine that for example the mechanical engineering industry is more obliged to transparency due to their difficult economic situation.

Figures

Figure 1. Typology according to Becker (Becker, Staffel & Ulrich 2008a, p. 30) ... 14
Figure 2. The Three Circle Model (Taguiri & Davis 1996, p. 200.) ... 16
Figure 3. Family Business Governance system (Koeberle-Schmid, Witt & Fahrion 2012, p. 31) ... 27

Graphs

Graph 1. Turnover ... 69
Graph 2. Number of employees ... 70
Graph 3. Legal form ... 70
Graph 4. Industry sectors ... 71
Graph 5. Company types of the sample group ... 72
Graph 6. Perceived benefits of the GKFU according to the sample companies 76
Graph 7. Use of business governance instruments ... 79
Graph 8. Who can become a partner in the family business? ... 81
Graph 9. Conflict management ... 84
Graph 10. Social commitment ... 86

Tables

Table 1. Definition of SME (IfM Bonn 2014b.) ... 10
Table 2. Definition of SME (European Union 2014.) ... 11
Table 3. Definition of SME according to HGB (§267 HGB.) ... 11
Table 4. Types and tasks of family governance bodies (Brockhoff & Koeberle-Schmid, p. 332.) ... 35
Table 5. Driving forces of business governance instruments (Fahrion et al. 2012, p. 202) ... 38
Table 6. Parameters ... 87

References

Achenbach, C. & Gottschalck, F. 2012. Vergütung mittelständischer Beiräte. Der Aufsichtsrat. Volume 4, pp. 50-52.

Achenbach, C., May, P. & Rieder, G. 2009. Professionalisierung der Arbeit von Beiräten in Familienunternehmen. Der Aufsichtsrat. 04/2009, pp. 50-52.

Aktiengesetz (AktG), 06. September 1965, lastly modified by paragraph 26 on 23. July 2013 http://www.gesetze-im-internet.de/aktg/BJNR010890965.html Accessed on 30.09.2014.

Banze, S. 2004. Unternehmensberater Peter May: Starsinnige Patriarchen ruinieren oft die Firma. In: Welt am Sonntag. http://www.welt.de/print-wams/article114348/Starrsinnige-Patriarchen-ruinieren-oft-die-Firma.html Accessed on 04.10.2014.

Baus, K. 2010. Die Familienstrategie. Wie Familien ihr Unternehmen über Generationen sichern. Wiesbaden: Gabler Verlag.

Becker, W., Fischer, S., Staffel, M. & Ulrich, P. 2008. Implementierungsstand von Unternehmensführung und Controlling in mittelständischen Unternehmen. Bamberger Betriebswirtschaftliche Beiträge, No. 149.

Becker, W., Baltzer, B. & Ulrich, P. 2008. Aktuelle Entwicklungen in der Unternehmensführung mittelständischer Unternehmen. Bamberg: Bamberger Betriebswirtschaftliche Beiträge No. 150.

Becker, W., Reker, J. & Ulrich, P. 2010. Beiräte im Mittelstand – Ergebnis einer Unternehmensbefragung. Der Aufsichtsrat. 11/2010, pp. 154-155.

Becker, W., Staffel, M. & Ulrich, P. 2008a. Mittelstand und Mittelstandsforschung. Bamberg: Bamberger Betriebswirtschaftliche Beiträge No. 153.

Becker, W. & Ulrich, P. 2010. Corporate Governance und Controlling – Begriffe und Wechselwirkungen. In Keuper, F. & Neumann, F. (ed.) Corporate Governance, Risk management und Compliance. Innovative Konzepte und Strategien. Wiesbaden: Gabler Verlag, pp. 5-28.

Bernhardt, W. 2010. Corporate Governance Kodex für Familienunternehmen?. Eine Widerrede. Working Papers of Universität Leipzig, No. 87. Leipzig.

Brenken, A. 2006. Die Globalisierung des Mittelstandes: Chancen und Risiken. Frankfurt am Main: KfW Bankengruppe.

Brockhoff, K. & Koeberle-Schmid, A. 2012. Mit Familienrat, Gesellschafterausschuss oder Familienmanager die Familie organisieren. In Koeberle-Schmid, A., Fahrion, H.-J. & Witt, P. (ed.) Family Business Governance. Erfolgreiche Führung von Familienunternehmen. Berlin: Erich Schmidt Verlag.

Carlock, R. & Ward, J. 2001. Strategic planning for the Family Business. Basingstoke: Palgrave.

Daily, C. M. & Dollinger, M. J. 1992. An Empirical Examination of Ownership Structure in Family and Professionally Managed Firms. Family Business Review Volume 5, No. 2, pp. 117-136.

Davis, J.A. 2013. Three-Circle Model of the Family Business System. http://johndavis.com/three-circle-model-of-the-family-business-system/ Accessed on 03.09.2014.

Dennerlein, B. 2014. In: Springer Gabler Verlag (ed.) Gabler Wirtschaftslexikon. Stuttgarter Verfahren. http://wirtschaftslexikon.gabler.de/Definition/stuttgarter-verfahren.html Accessed on 20.11.2014.

Destatis. 2014. Anteile kleiner und mittlerer Unternehmen an ausgewählten Merkmalen 2011. https://www.destatis.de/DE/ZahlenFakten/GesamtwirtschaftUmwelt/UnternehmenHandwerk/KleineMittlereUnternehmenMittelstand/Tabellen/Insgesamt.html Accessed on 28.09.2014.

Deutsches Institut für interne Revision e.V. 2014. Ziele, Aufgaben und Strukturen der internen Revision. http://www.diir.de/fachwissen/revisionshandbuch-marisk/ziele-und-aufgabenstellung-der-internen-revision/ Accessed on 12.10.2014.

Eckert, M. 2008. Evolution von Familienunternehmen. Organisationsstruktur, Marktumfeld und Unternehmenserfolg. Köln: Josef Eul Verlag.

Eddleston, K. & Kellermanns, F. W. 2007. Destructive and productive family relationships: A stewardship theory perspective. Journal of Business Venturing. Volume 22. Issue 4, pp. 545-564.

Eiben, J. 2012. Struktur und Aufgaben von Single Family Offices. In Koeberle-Schmid, A., Fahrion, H.-J. & Witt, P. (ed.) Family Business Governance. Erfolgreiche Führung von Familienunternehmen. Berlin: Erich Schmidt Verlag.

Erbschaftsteuer- und Schenkungssteuergesetz (ErbStG), 17. April 1974, lastly modified by paragraph 30 on 26. June 2013 http://www.gesetze-im-internet.de/erbstg_1974/BJNR109330974.html Accessed on 30.09.2014.

Erlei, M. 2014. In: Springer Gabler Verlag (ed.) Gabler Wirtschaftslexikon. Agency-Kosten. http://wirtschaftslexikon.gabler.de/Definition/agency-kosten.html?referenceKeywordName=Residualverlust Accessed on 29.09.2014.

Espel, P. 2008. Privates Beteiligungskapital im deutschen Mittelstand. Eine verhaltenspsychologisch fundierte Betrachtung der nachfrageseitigen Nutzungsintention. Wiesbaden: GWV Fachverlage GmbH.

European Central Bank. 2005. Annual Report 2004. Frankfurt a. M.: ECB, Glossary p. 219.

European Commission. 2008. Metadata. Statistical Classification of Economic Activities in the European Community. http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=NACE_REV2&StrLanguageCode=DE&IntPcKey=&StrLayoutCode=HIERARCHIC&IntCurrentPage=1 Accessed on 02.11.2014.

European Union. 2014. What is an SME?. http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm Accessed on 30.06.2014.

Fahrion, H.-J., Käufl, A. & Hein, S. 2012. Risikomanagement, internes Kontrollsystem und Compliance Management als zentrale Instrumente der Business Governance. In Koeberle-Schmid, A., Fahrion, H.-J. & Witt, P. (ed.) Family Business Governance. Erfolgreiche Führung von Familienunternehmen. Berlin: Erich Schmidt Verlag.

Fama, J. & Jensen, M. 1983. Separation of ownership and control. Journal of Law and Economics. Volume 26, pp. 301-325.

Frasl, E. J. & Rieger, H. 2007. Family Business Handbuch. Zukunftssicherung von Familienunternehmen über Generationen. Wien: Linde Verlag.

Geis, A. 2012. Interne Revision als unabhängiges Instrument der Business Governance. In Koeberle-Schmid, A., Fahrion, H.-J. & Witt, P. (ed.) Family Business Governance. Erfolgreiche Führung von Familienunternehmen. Berlin: Erich Schmidt Verlag.

Gesetz betreffend die Gesellschaften mit beschränkter Haftung (GmbHG), 20. April 1892, lastly modified by paragraph 27 on 23. July 2013 http://www.gesetze-im-internet.de/gmbhg/BJNR004770892.html Accessed on 30.10.2014.

Gesetz über die Mitbestimmung der Arbeitnehmer (MitbestG). 04. May 1976, lastly modified by paragraph 2, clause 113 on 22. December 2011 http://www.gesetze-im-internet.de/mitbestg/BJNR011530976.html Accessed on 30.09.2014.

Gesetz über die Rechnungslegung von bestimmten Unternehmen und Konzernen (PublG), 15. September 1969, lastly modified by paragraph 3, clause 3 on 04. October 2013 http://www.gesetze-im-internet.de/publg/BJNR011890969.html Accessed on 30.09.2014.

Groß, J., Redlefsen, M. & Witt, P. 2012. Gesellschafterversammlung und Gesellschafterausstieg – Was Gesellschafter dürfen und müssen sowie der Umgang mit „Fahnenflucht". In Koeberle-Schmid, A., Fahrion, H.-J. & Witt, P. (ed.) Family Business Governance. Erfolgreiche Führung von Familienunternehmen. Berlin: Erich Schmidt Verlag.

Grottel, B. 2012. Der Nutzen des Abschlussprüfers für Familienunternehmen als externer Business Governance-Akteur. In Koeberle-Schmid, A., Fahrion, H.-J. & Witt, P. (ed.) Family Business Governance. Erfolgreiche Führung von Familienunternehmen. Berlin: Erich Schmidt Verlag.

Grottel, B., Kieser, M., Helfmann, L., Rau, B., Kettenring, T. 2012. Governance Kodex für Familienunternehmen. Kritische Analyse und Stand der Umsetzung. Zeitschrift für Corporate Governance 4, pp. 153-157.

Hack, A. & Meyer, J. 2012. Gründe für eine spezielle Governance von Familienunternehmen. In Koeberle-Schmid, A., Fahrion, H.-J. & Witt, P. (ed.) Family Business Governance. Erfolgreiche Führung von Familienunternehmen. Berlin: Erich Schmidt Verlag.

Hamer, E. 1990. Mittelständische Unternehmen: Gründung, Führung, Chancen, Risiken. Landsberg am Lech: Poller.

Handelsgesetzbuch (HGB), 10. May 1897, lastly modified by paragraph 13 on 15. July 2014 http://www.gesetze-im-internet.de/hgb/BJNR002190897.html Accessed on 30.09.2014.

Heyden, L., Blondel, C. & Carlock, R. S. 2005. Fair Process: Striving for Justice in Family Business. Family Business Review Volume 18, No. 1, pp. 1-21.

Institut für Mittelstandsforschung Bonn 2014a. http://www.ifm-bonn.org/mittelstandsdefinition/definition-familienunternehmen/ Accessed on 26.09.2014.

Institut für Mittelstandsforschung Bonn 2014b. http://www.ifm-bonn.org/mittelstandsdefinition/definition-kmu-des-ifm-bonn/ Accessed on 26.09.2014.

Institut für Mittelstandsforschung Bonn 2014c. http://www.ifm-bonn.org/mittelstandsdefinition/ Accessed on 26.09.2014.

Institut für Mittelstandsforschung Bonn 2014d. http://www.ifm-bonn.org/statistiken/mittelstand-im-ueberblick/#accordion=0&tab=1 Accessed on 26.09.2014.

INTES Akademie für Familienunternehmen. 2014. Familien. Unternehmen. Zukunft. http://www.intes-akademie.de/ Accessed on 02.10.2014.

Janssen, J. 2009. Rechnungslegung im Mittelstand. Wiesbaden: GWV Fachverlage GmbH.

Jehn, K. 1995. A multimethod examination of the benefits and detriments of intragroup conflict. Adminstrative Science Quarterly. Volume 40. Issue 2, pp. 256-282.

Jehn, K. 1997. A quantitative analysis of conflict tyes and dimensions in organisational groups. Adminstrative Science Quarterly. Volume 42. Issue 3, pp. 530-558.

Jehn, K. & Bendersky, C. 2003. Intragroup conflict in organisations: A contingency perspective on the conflict-outcome relationship. Research in Organizational Behavior. Volume 25, pp. 187-242.

John Davis. 2013. Three Circle Model of the family business. http://johndavis.com/three-circle-model-of-the-family-business-system/ Accessed on 03.09.2014.

Kaye, K. 1991. Penetrating the cycle of sustained conflict. Family Business Review. Volume 4. Issue 1, pp. 21-44.

Kaye, K. 1996. When the family business is a sickness. Family Business Review. Volume 9. Issue 4, pp. 347-368.

Kellermanns, F. W. & Eddleston, K. 2004. Feuding families: When conflict does a family firm good. Entrepreneurship Theory & Practice. Volume 28. Issue 3, pp. 209-228.

Kellermanns, F. W. & Eddleston, K. 2006. Feuding families: The management of conflict in family firms. In Poutziouris, P., Smyrnios, K. & Klein, S. (ed.) Family Business Research Handbook. Northahmpton: Edward Elgar Publishing.

Kellermanns, F. W. & Eddleston, K. 2007. Family perspective on when conflict benefits family firm performance. Journal of Business Research: Special Issue on Family Firms. Volume 60. Issue 10, pp. 1048-1057.

Kellermanns, F. W. & Schlippe, A. 2012. Konflikte in Familie und Unternehmen erkennen, managen und vermeiden. In Koeberle-Schmid, A., Fahrion, H.-J. & Witt, P. (ed.) Family Business Governance. Erfolgreiche Führung von Familienunternehmen. Berlin: Erich Schmidt Verlag.

Kellermanns, F. W., Walter, J., Lechner, C. & Floyd, S. 2005. The lack of consensus about strategic consensus: Advancing theory and research. Journal of Management. Volume 31. Issue 5, pp. 719-737.

Kenyon-Rouvinez, D. 2012. Familienunternehmen „Richtig“ führen. In Koeberle-Schmid, A., Fahrion, H.-J. & Witt, P. (ed.) Family Business Governance. Erfolgreiche Führung von Familienunternehmen. Berlin: Erich Schmidt Verlag.

Khadjavi, K. 2005. Wertmanagement im Mittelstand. Eschen: Digiprint AG.

Klein, S. 2004. Familienunternehmen. Theoretische und empirische Grundlagen. Wiesbaden: Springer Verlag.

Koeberle-Schmid, A. 2008. Das System der Family Business Governance. Zeitschrift für Corporate Governance Volume 3. pp. 149-155.

Koeberle-Schmid, A., Witt, P., Fahrion, H.J. 2010. Gestaltung der Governance im Familienunternehmen. Gremien und Instrumente der Business und Family Governance. Zeitschrift für Corporate Governance 4, pp. 161-169.

Koeberle-Schmid, A. & Lorz, R. 2012. Professionelle Aufsichtsgremien: Aufgaben, Typen und Ausgestaltung. In Koeberle-Schmid, A., Fahrion, H.-J. & Witt, P. (ed.) Family Business Governance. Erfolgreiche Führung von Familienunternehmen. Berlin: Erich Schmidt Verlag.

Koeberle-Schmid, A., Witt, P. & Fahrion, H.-J. 2012. Family Business Governance als Erfolgsfaktor von Familienunternehmen. In Koeberle-Schmid, A., Fahrion, H.-J. & Witt, P. (ed.) Family Business Governance. Erfolgreiche Führung von Familienunternehmen. Berlin: Erich Schmidt Verlag.

Koeberle-Schmid, A., Witt, P. & Fahrion, H.-J. 2012a. Die Governance eines Familienunternehmens zusammengefasst in der Family Business Governance-Verfassung. In Koeberle-Schmid, A., Fahrion, H.-J. & Witt, P. (ed.) Family Business Governance. Erfolgreiche Führung von Familienunternehmen. Berlin: Erich Schmidt Verlag.

Kommission Governance Kodex für Familienunternehmen. 2010. Governance Kodex für Familienunternehmen. Leitlinien für die verantwortungsvolle Führung von Familienunternehmen. http://www.kodex-fuer-familienunternehmen.de/ Accessed on 01.07.2014.

Kormann, H. 2008. Unvereinbarkeit von Aufsicht und Rat. Der Aufsichtsrat. Volume 11, pp. 157-159.

Laatsch, V. 2014. Balanceakt zwischen Verschiwegenheit und Transparenz. In: Mittelstand Nachrichten. http://www.mittelstand-nachrichten.de/unternehmen/balanceakt-zwischen-verschwiegenheit-und-transparenz-20141117.html Accessed on 19.11.2014.

Lange, K. W. 2009. Der Beirat als Element der Corporate Governance in Familienunternehmen. In Schlippe, A., Rüsen, T. & Groth, T. (ed.) Beiträge zur Theorie des Familienunternehmens. Köln: Josef Eul Verlag.

Lange, K. 2009a Kodex und Familienverfassung als Mittel der Corporate Governance in Familienunternehmen. In Kirchdörfer, R., Lorz, R., Wiedemann, A., Kögel, R. & Frohnmayer, T. (ed.) Familienunternehmen in Recht, Wirtschaft, Politik und Gesellschaft. München: C. H. Beck Verlag ,pp. 135-149.

May, P. & Lehmann-Tolkmitt, A. 2006. Good Governance – Familienunternehmen zwischen Wert- und Werte-Orientierung. In Krüger, W., Klippstein, G., Merk, R. & Wittberg, V. (ed.) Wiesbaden: Gabler Verlag, pp. 219-231.

Möller, M. & Pfaff, D. 2007. Die Prüfung des IKS bei KMU. Besonderheiten und Problembereiche sowie ihre Auswirkungen auf die Prüfung. Der Schweizer Treuhänder 01-02/2007. Volume 81, pp. 49-55.

Montemerlo, D., Gnan, L., Schulze, W. & Corbetta, G. 2008. Governance Structure in Italian Family SMEs. Venice: Università Ca' Foscari.

Neuvians, N. 2013. Good Governance in mittelständischen Familienunternehmen. In GoBS-Schriften für Wirtschaft und Verwaltung. Corporate Governance im Mittelstand. Volume 2. Essen: MA Akademie Druck- und Verlags-gesellschaft mbH, pp. 9-29.

Nippa, M. & Grigoleit, J. 2006. Corporate Governance ohne Vertrauen? Ökonomische Konsequenzen der Agency-Theorie. Freiberg Working Papers Volume 1.

Papesch, M. 2010. Corporate Governance in Familienunternehmen. Eine Analyse zur Sicherung der Unternehmensnachfolge. Wiesbaden: Gabler Verlag.

Peter, F., Rieder, G., Störmann, G. & Koeberle-Schmid, A. 2012. Zusammenhalt in der Unternehmerfamilie stiften. In Koeberle-Schmid, A., Fahrion, H.-J. & Witt, P. (ed.) Family Business Governance. Erfolgreiche Führung von Familienunternehmen. Berlin: Erich Schmidt Verlag.

Pfaff, D. & Ruud, F. 2007. Internes Kontrollsystem in Schweizer KMU – Herausforderungen und Lösungsansätze. Die Unternehmung 06/2007. Volume 61, pp. 445-462.

Redlefsen, M. & Witt, P. 2006. Gesellschafterausstieg in großen Familienunternehmen. Zeitschrift für Betriebswirtschaft. Volume 76. Issue 1, pp. 7-27.

Regierungskommission Deutscher Corporate Governance Kodex. 2014. Deutscher Corporate Governance Kodex. http://www.dcgk.de/en/code.html Accessed on 11.09.2014.

Reinemann, H. & Böschen, V. 2008. Corporate Governance – Werte schaffen und bewahren. Begleitstudie zum Axia-Award für den Mittelstand. München: Deloitte Wirtschaftsprüfung.

Richter, A. 2011. Governance Kodex für Familienunternehmen. In: Rechtsboard. http://blog.handelsblatt.com/rechtsboard/2011/07/15/governance-kodex-fur-familienunternehmen/ Accessed on 04.10.2014.

Saunders, N.K., Lewis P. & Thornhill, A. 2012. Research Methods for Business Students. Harlow: Pearson Education.

Schlippe, A. v. & Kellermanns, F. W. 2008. Emotionale Konflikte in Familienunternehmen. Zeitschrift für KMU und Entrepreneurship. Volume 56. Issue 1-2, pp. 40-58.

Schneewind, K. 2009. Familien in Deutschland. Beiträge aus familienpsychologischer Sicht. Berlin: Berufsverband Deutscher Psychologinnen und Psychologen e. V.

Schween, K., Koeberle-Schmid, A., Bartels, P. & Hack, A. 2011. Die Familienverfassung. Zukunftssicherung für Familienunternehmen. Bonn-Bad Godesberg: INTES Akademie für Familienunternehmen GmbH.

Simons, T. & Peterson, R. 2000. Task conflict and relationship conflict in Top Management teams: The pivotal role of intragroup trust. Journal of Applied Psychology. Volume 85. Issue , pp. 102-111.

Steltzner, H. 2010. Vielfalt statt Einheitskodex. In: Frankfurter Allgemeine Zeitung. http://www.faz.net/aktuell/wirtschaft/familienunternehmen-vielfalt-statt-einheitskodex-11007304.html Accessed on 04.10.2014.

Stiftung Familienunternehmen. 2008. Die volkswirtschaftliche Bedeutung der Familienunternehmen. München: Stiftung Familienunternehmen.

Stiftung Familienunternehmen. 2011. Die volkswirtschaftliche Bedeutung der Familienunternehmen. München: Stiftung Familienunternehmen.

Taguiri, R. & Davis, J. 1996. Bivalent Attributes of the Family Firm. Family Business Review Volume 9, No. 2, pp. 199-208.

Ulrich, P. 2011. Corporate Governance in mittelständischen Familienunternehmen. Theorien, Feldstudien, Umsetzung. Wiesbaden: Gabler Verlag.

Werder, A. 2008. Führungsorganisation. Grundlagen der Corporate Governance, Spitzen- und Leitungsorganisation. Wiesbaden: Gabler Verlag.

Werder, A. 2010. Ökonomische Grundfragen der Corporate Governance. In Hommelhoff, P., Hopt, K. & Werder, A. (ed.). Handbuch Corporate Governance. Stuttgart: Schäffer-Poeschel Verlag.

Welge, M. K. & Eulerich, M. 2012. Corporate-Governance-Management. Theorie und Praxis der guten Unternehmensführung. Wiesbaden: Gabler Verlag.

Welge, M. & Witt, P. 2013. Corporate Governance in kleinen und mittleren Unternehmen. ZfB-Special Issue 2/2013, pp.185-205.

Witt, P. 2008. Corporate Governance in Familienunternehmen. ZfB-Special Issue 2/2008, pp.1-19.

***All relevant references concerning the interview partners in chapter 5 are not released due to confidentiality agreements.**

Appendix 1 Interview (Original version in German)

Interview Corporate Governance in mittelständischen Familienunternehmen

Firma:
Name Teilnehmer:
Branche:
Anzahl Mitarbeiter:
Gründungsjahr:
Rechtsform:
Umsatz:

Family Business Governance bezeichnet die Unternehmensführung in Familienunternehmen. Sie besteht aus den Bereichen Business Governance und Family Governance.
Im Governance Kodex für Familienunternehmen sind Leitlinien definiert, die bei der Organisation von Führung und Kontrolle im Unternehmen unterstützen und den Zusammenhalt der Familie sichern. Zentrale Aspekte des Governance Kodex umfassen die Themen Inhaber, Aufsichtsgremium, Unternehmensführung, Ergebnisermittlung und Ergebnisverwendung, die Übertragbarkeit der Inhaberschaft und das Ausscheiden aus dem Gesellschafterkreis.

Business Governance

Business Governance ist eine Komponente der Family Business Governance und behandelt die Einführung transparenter und nachvollziehbarer Strukturen und Instrumente zur Führung und Aufsicht eines Unternehmens.

1. Haben Sie Ziele und Werte für Ihr Unternehmen festgelegt und wenn ja, welche?

2. Sind Ihnen die folgenden Ziele wichtig?
   - Zusammenhalt der Familie
   - Gegenseitige Unterstützung
   - Familienunternehmen bleiben
   - Unabhängigkeit als Familienunternehmen
   - Positives Image/Reputation

3. Sind Ihnen die folgenden Werte wichtig?
   - Respekt
   - Toleranz
   - Solidarität
   - Verantwortung
   - Bescheidenheit
   - Maßhalten
   - Integrität
   - Kontinuität
   - Glaubwürdigkeit

4. Sind Sie vertraut mit dem Governance Kodex für Familienunternehmen und welchen Nutzen sehen Sie in einem Kodex?

5. Haben Sie Richtlinien des Kodex schriftlich fixiert und wenden Sie diese in ihrem Unternehmen an? Wenn nein, warum nicht? Wenn ja, gibt es eine Familienverfassung oder ähnliche Leitlinien?

6. Welche Aspekte guter Unternehmensführung sind für Sie besonders wichtig?

7. Haben Sie ein Aufsichtsgremium? Wenn ja, welche Aufgaben obliegen diesem? Größe und Zusammensetzung?

8. Wenn nein, würden Sie zukünftig freiwillig ein Aufsichtsgremium einrichten? Begründung?

9. Für wie wichtig erachten Sie Transparenz gegenüber Banken und anderen externen Stakeholdern?

10. Die zentralen Instrumente der Business Governance sind interne Revision, Risikomanagement und Compliance Management. Setzen Sie diese ein und wie sind sie ausgestaltet? Welche Bedeutung haben Sie?

11. Internes Kontrollsystem: Nutzen Sie die folgenden Instrumente in Ihrem Unternehmen?
    - Genehmigungen
    - Berechtigungen
    - Abstimmungen
    - Investitions- und Einkaufsrichtlinien
    - Vergütungsregelungen
    - Vier-Augen-Prinzip
    - Kreditlimits
    - Rechnungsprüfung
    - Verhaltenskodex

Family Governance

Die Family Governance beschäftigt sich thematisch mit der Inhaberfamilie eines Unternehmens und den entsprechenden Gremien.

1. In welchem Umfang ist die Familie an der Leitung des Unternehmens beteiligt?

2. Welche Gründe sehen Sie (gegebenenfalls) für die Einbeziehung eines familienfremden Managements? Wie ist die grundsätzliche Einstellung im Unternehmen gegenüber einem familienfremden Management?

3. Aus wie vielen Mitgliedern besteht die Geschäftsführung?

4. Welcher Verwandtschaftsgrad herrscht zwischen den Mitgliedern der Geschäftsführung?

5. Existiert eine Familienrepräsentanz? (Familienrat, Gesellschafterausschuss)

6. Wie viele Gesellschafter gibt es insgesamt und wie sind die Anteile auf diese verteilt?

7. Wer darf in Ihrem Unternehmen Gesellschafter werden? (leibliche Kinder, Ehepartner,…)

8. Was passiert mit den Anteilen eines Gesellschafters, wenn dieser aus dem Unternehmen ausscheiden möchte oder verstirbt?

9. Haben Sie Regelungen bezüglich der Unternehmensnachfolge getroffen? Wenn ja, welche?

10. Haben Familien- oder Unternehmensinteressen für die Familie Vorrang?

11. Wie wichtig ist Ihnen der Zusammenhalt in der Familie?

12. Haben Sie innerhalb der Familie gemeinsame Aktivitäten und Maßnahmen, die den Zusammenhalt und die Bindung zum Unternehmen stärken sollen?

13. Wie lösen Sie eventuelle Konflikte zwischen den Gesellschaftern?

14. Ist ihr Unternehmen gesellschaftlich engagiert? Wenn ja, in welcher Weise?

Appendix 2 Interview (English translation)

Interview Corporate Governance in medium-sized family businesses

Company:
Participant:
Industry Sector:
Employees:
Year of Foundation:
Legal form:
Turnover:

Family Business Governance describes the good governance in family companies. It consists of the two fields business governance and family governance.
In the governance code for family companies guidelines are defined, which support the organization of management and control in the company and assure the solidarity within the family. Central aspects of the governance code are the issues ownership, supervisory boards, management, appropriation of profits, the fungibility of ownership and the resignation of owners.

Business Governance

Business Governance is one of the components of family business governance and deals with the implementation of transparent structures and instruments to manage and control the company.

1. Which values and objectives do you have determined for your company?

2. Are the following objectives of importance for you?
- Solidarity of the family
- Mutual support
- To remain a family business
- Independence
- Positive image/reputation

3. Are the following values of importance for you?
- Respect
- Tolerance
- Solidarity
- Responsibility
- Modesty
- Moderation
- Integrity
- Continuity
- Credibility

4. Are you familiar with the Governance Code for family businesses (GKFU) and which benefit would you expect?

5. Have you implemented guidelines of the GKFU? If not, why? Or are there any similar guidelines or a family constitution?

6. Which aspects of good governance are particularly important for you?

7. Do you have a supervisory board? If yes, which tasks does it have and how is it composed?

8. If not, would you establish a voluntary board in future?

9. Do you think transparency towards financial institutions or other external stakeholders is important?

10. The central instruments of business governance are internal audit, risk management and compliance management. Do you use them? How are they developed?

11. Internal control system: Do you use the following instruments in your company?

- Approvals
- Authorisations
- Coordination
- Guidelines for investments or purchasing
- Compensation guidelines
- Four-eyes principles
- Credit limits
- Auditing of accounts
- Code of conduct

Family Governance

The family governance concentrates on the owner family and correspondent bodies and instruments.

1. To which extent the family participates in the management of the company?

2. Which purpose would lead you to an external management? How is the tenor towards an external management in the company?

3. How many persons are in the management?

4. Which degree of relationship do the members of the management have?

5. Do you have a family representation? (family council, shareholder's meeting)

6. How many partners exist and how are the shares distributed?

7. Who is allowed to become a partner and owner of the company? (children, spouses, …)

8. What happens with the shares of a partner, if he or she wants to resign or dies?

9. Do you already have regulations for the succession? If yes, which?

10. Are the family interests or the company interests more important for you?

11. How important is the solidarity in the family?

12. Do you have common activities or measures in the family to strengthen the solidarity and ties to the company?

13. How do you solve potential conflicts among the partners?

14. Is the company socially committed? If yes, how?