

# **Role of Family Governance in Bringing the Next Generation Close to the Family Business**

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## **School of Business**

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**Abstract**

In terms of family business continuity, succession remains one of the most pressing challenges for business-owning families. According to statistics, only 10 % of family businesses survive through the third generation of ownership. Nonetheless, research focusing on next generation integration and supporting communication practices is scarce.

This thesis is a case study of next generation integration in a family business currently in its second generation of ownership (later "the case Family Business"). The purpose of this study is to identify ways in which the next generation has built its relationship with the case Family Business, and what role formal communication practices (later "planned communication") have played in that process.

The theoretical framework consists of theories that explain the distinctive features of family businesses, their development over time, and the subsequent loss of natural communication. Family governance is presented as a solution to reintroduce communication into the family business system and manage the increasing family complexity. The relationship between the next generation and the case Family Business is analyzed with the help of the stakeholder communication model.

Finding suggest, that next generation members build their relationship with the case Family Business through the same dimensions that constitute a family business: family, ownership and business. Furthermore, touchpoints to all three were needed in order to achieve a strong stakeholder relationship.

The findings also highlight the role of family governance in next generation integration. Although the next generation members' immediate families remained their most important link to the Family Business, the role of planned communication was found to be significant and growing.

Planned communication was found to enable ownership talk, create shared meaning about the business, increase overall communication, promote equality, and increase the sense of togetherness within the business-owning family. Based on this study, family governance and planned communication have been beneficial in terms of bringing the next generation closer to the Family Business.

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**Keywords** family business, family governance, next generation, ownership, stakeholder communication, succession

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### Tiivistelmä

Sukupolvenvaihdos on yksi suurimmista haasteista perheyrikyksten jatkuvuudelle. Tilastojen mukaan ainoastaan 10 % perheyrikyksistä selviää kolmanteen sukupolveen. Siitä huolimatta tutkimus seuraavan sukupolven tutustuttamisesta perheyrikykseen ja siinä auttavista viestintäkäytännöistä on vähäistä.

Tämä tutkimus on case-tutkimus seuraavan sukupolven tutustuttamisesta perheyrikykseen, joka on tällä hetkellä toisen sukupolven omistuksessa (myöhemmin "Perheyrikykseen"). Tutkielman tarkoitus on selvittää, kuinka seuraava sukupolvi on rakentanut suhdettaan Perheyrikykseen ja mikä rooli virallisilla viestintäkäytännöillä (myöhemmin "suunniteltu viestintä") on ollut siinä.

Teoreettinen viitekehys koostuu teorioista, jotka selittävät perheyrikyksten omailemaita piirteitä, niiden kehitystä ajan kuluessa, sekä siitä johtuvaa luonnollisen viestinnän vähentymistä. Perheen hyvien hallintotapojen kehittäminen nostetaan esille ratkaisuna palauttaa perheyrikykseen viestintää ja hallita perheen kasvavaa monimutkaisuutta. Suhdetta seuraavan sukupolven ja Perheyrikyksen välillä analysoidaan sidosryhmäviestinnän teorian avulla.

Tulosten mukaan seuraava sukupolvi rakentaa suhdettaan Perheyrikykseen samojen osa-alueiden kautta, joista perheyrikykset koostuvat: perhe, omistajuus ja yritys. Lisäksi havaittiin, että tarttumapintaa kaikkiin näihin tarvittiin, jotta sidosryhmäsuhteesta syntyi vahva.

Tulokset korostavat perheen hyvien hallintotapojen roolia seuravan sukupolven tutustuttamisessa perheyrikykseen. Vaikka kunkin seuraajasukupolven jäsenen ydinperhe oli tärkein linkki Perheyrikykseen, suunnitellun viestinnän rooli oli merkittävä ja koko ajan kasvava.

Suunnitellun viestinnän löydettiin lisäävän keskustelua omistajuudesta, luovan yhteistä ymmärrystä yrityksestä, lisäävän viestintää ylipäättään, parantavan tasaa arvoa ja lisäävän yhtenäisyyden tunnetta omistajaperheen sisällä. Tämän tutkielman perusteella hyvien hallintotapojen ja viestintäkäytäntöjen kehitys on ollut suotuisaa seuraavan sukupolven tutustuttamisessa Perheyrikykseen.

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**Avainsanat** omistajuus, perheyrikykseen, omistajaperheen hyvät hallintotavat, seuraava sukupolvi, sidosryhmäviestintä, sukupolvenvaihdos

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## Preface

Approximately three years ago, when I was about to begin my master's in Corporate Communication, my aunt approached me with a proposal. She illustrated family businesses with three overlapping circles for family, ownership and business, a model I later found to be the foundation for much of family business research.

Based on her ongoing EMBA studies, as well as her experience as the chairperson of the board of our family business, she was convinced that communication between and within these three subsystems was the foundation for good governance, sound ownership practices and, effectively, lasting family business success.

"If anything in your studies resonates with this theme, there is room for a thesis here", she said. At the time, I had little idea what tools my studies would provide me with. Managing the internal relations of family, owners and managers in a family business system seemed far away from what I back then perceived as the core of corporate communication.

Two and a half years after that initial conversation, I began this thesis on family communication in a family business, with the focus of next generation integration. As it turned out, communication was a much larger concept than I could have ever thought, and provided an interesting framework to study family businesses.

Working on this thesis has allowed me to see our family business from yet a new perspective: that of the family and ownership. I've been able to uncover new themes, challenge my assumptions and get excited for the future. I've been surprised and awed by the thoughtfulness, integrity and openness of my younger cousins.

I would like to thank my aunt Miia Porkkala for her resourcefulness and positive attitude, without which this thesis would never have been finished. Similarly, I want to thank my partner Oskari for his endless patience and support.

Family entrepreneur Antoine Mayaud deserves special thanks for opening the fascinating world of business family communication for me, and Dr. Justin Craig for pointing me in the right direction theory-wise. Many thanks also to Krista Elo-Pärssinen, Mari Vähäsöyrinki and the many others who provided me with ideas and guidance regarding this work.

Last, I would like to thank my late grandfather Juhani Aho, without whom there would be no family business to study, and Kari Jussi Aho, Miia, Annakaija Lappalainen, Antti Aho and Ville Aho, for continuing his work and allowing the third generation to participate in this shared project.

Kuusamo, 23.8.2019

Milla Lappalainen

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# 1 Introduction

## 1.1 Background

This thesis concerns itself with the phenomenon of next generation integration in a mature family business. In order to increase the likelihood of business continuity, family businesses need to successfully integrate the next generation of owners. Although succession is the primary concern of family businesses (PwC 2016), research focusing on next generation integration and communication practices to support it remains scarce.

Family businesses constitute an important part of the global and national business landscape. In Finland, family businesses make up 25 % of all companies, and 70 % of all companies with employees (Finnish Family Firms Association 2019). It is especially the latter percentage that makes family businesses such a significant force in society, and their contribution to economic and social welfare unquestionable.

Consequently, when a family business fails to achieve business continuity, a significant amount of capital, knowledge, employment and history can be lost with it. The loss is not the owners' alone, for family businesses are often deeply rooted in local societies. Entire regions have been known to wither when significant employers have retreated, due to bankruptcy or selling the operations abroad.

It is today widely recognized in family business research, that the root cause for many family business failures, and the consequent loss of economic and social capital, is often not mismanagement of the business, but that of the family (Carlock and Ward 2010).

A useful tool for understanding why this can happen is the three-circle model developed by Tagiuri and Davis (Tagiuri and Davis 1996). It consists of three overlapping circles which represent the family, the business, and the ownership in a family business (see Figure on page 14). The model calls attention to the fact that a change in one circle can ignite a change in one of the others, thus affecting the entire family business system (Tagiuri and Davis 1996).

If not attended to, problems related to the family can radiate on the business side as well, causing various issues from mismanagement to lack of direction and reluctance to reinvest in the business. On the other hand, as Gersick writes, "when they are working well, families can bring a level of commitment, long-range investment, rapid action, and love for the company that non-family businesses yearn but seldom achieve" (Gersick 1997, 3).

One of the most significant family-based challenges that family businesses face is the succession process. According to commonly cited statistics, only 30 % of family businesses are successfully passed on to the second generation, 10 % to the third generation, and only 4 % to the fourth generation (Brenes, Madrigal, and Requena 2011) (see Figure 1). Based on these numbers, a family business intent on passing on ownership faces the odds.

In a recent survey, Ernst & Young mapped out most common reasons for succession failures in family businesses. According to EY, succession processes most often fail due to communication challenges within the family (60 %), incomplete introduction



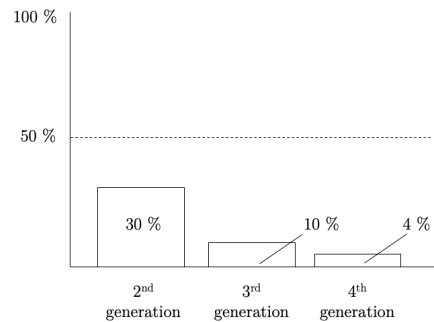


Figure 1: Likelihood of successful succession when transferring ownership to 2nd, 3rd and 4th generations (Brenes, Madrigal, and Requena 2011).

of the next generation to the family business (25 %), an undefined purpose for the business-owning family's wealth (12 %), and unprofessional advisors (3 %) (Ernst & Young 2018). These figures are illustrated in Figure 2.

What is noteworthy, is that three out of four of these reasons can be directly linked to lack of communication within the business-owning family. These numbers underline the need for on-going communication between the business and the business-owning family, as well as within the business-owning family, and especially towards the next generation, upon which continuation of the business lies. Communication in the family business setting presents itself, thus, as an interesting and valuable course of study.

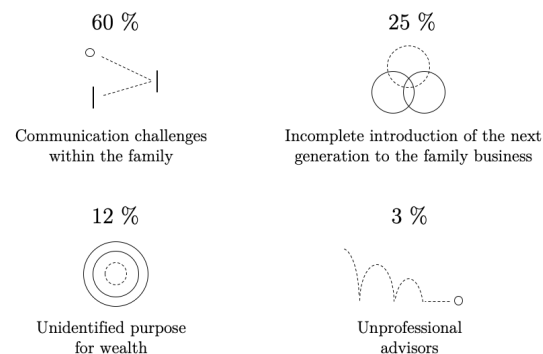


Figure 2: Reasons for succession failures in family businesses (Ernst & Young 2018). Figure translated and illustrated by the author of this thesis.

Typically, natural communication within the business-owning family decreases when the family business matures. The reason for this is increasing family complexity, which is defined as "the number of family members and the kind of relationships established among them, the number of generations alive at a given point in time" (Gimeno Sandig et al. 2006, 147). Simply put, communication gets more difficult, when the amount and diversity of stakeholders increases.

Business-owning families in the first generation of ownership are usually compact in size and characterized by intimate family relationships. The founder usually plays a central role in all three circles of the family business. Business related issues flow readily into family life, and the next generation is effortlessly integrated in to the family business.

However, a change takes place when transitioning to further generations. It has been written, that a gap forms and gradually widens between the family and the business in the second and third generations (Magretta 1998). Whereas the children of the founder are often naturally exposed to the business, cousins in the third generation are already one step further away from the business.

In order to keep the business-owning family interested and invested in the business, family businesses need to find new ways to reconnect with each other and the business in a relevant manner (Carlock and Ward 2010). Often, business-owning families in later stages of ownership begin to develop official structures and bodies to govern the family's involvement.

Together, these practices are often referred to as family governance, as opposed to business governance, which interests itself in the business subsystem. However, communication methods and processes from the view of the next generation are largely untapped in family business best practice.

This is critical, for values, attitudes and norms related to the family business are adopted at a young age, years or even decades before becoming an owner. If the next generation is kept at a distance from the family business, chances of successful succession are slight. It is for these reasons that this thesis interests itself in how the next generation is brought closer to the family business.

This research problem is approached from the point of view of one Finnish family business, later called "the case Family Business". The Family Business, currently run by the founder's five children, wants to remain as a family business and pass on ownership to the next generation. The 2nd generation recognizes that integration of the 3rd generation is crucial to achieve their goal of business continuity, and has a will to develop practices which aid in that.

This study takes a novel approach to prior family business research by applying a theory of stakeholder communication to analyze how the next generation has built its relationship with the case Family Business. The stakeholder communication theory suggests that a stakeholder's relationship with an organization progresses from awareness to understanding to involvement to commitment, in other words, from lower to higher proximity (Cornelissen 2014, 51).

First, this thesis aims to portray how these stakeholder effects have been born and strengthened, and through that gain a better understanding of what brings the next generation closer to the Family Business. Furthermore, this thesis aims to map the significance of family governance – or more precisely, the communication practices it has helped create – in bringing the next generation closer to the Family Business.

Ideally, family governance would have advanced the integration of the next generation to the Family Business, increasing the likelihood of future succession and business continuity.

## 1.2 Research questions

The aim of this thesis is to understand how the next generation has built its relationship with the case Family Business. In order to provide an answer to this research problem, two research questions have been formulated:

1. How have the four stakeholder effects (Cornelissen 2014, 51) – awareness, understanding, involvement and commitment – been born and strengthened within the next generation of the case Family Business?
2. In which ways, if any, has family governance aided in achieving a stronger stakeholder relationship between the next generation and the Family Business, thus bringing the next generation closer to the Family Business?

## 1.3 Structure of the thesis

This thesis is divided into seven main chapters, which include an introduction, the theoretical framework, methodology, two chapters of findings, discussion, and lastly, conclusion.

In chapter 2, relevant literature from the fields of family business studies and organizational communication studies are reviewed. The theoretical framework consists of theories to understand maturing family businesses and their need for on-going communication (2.2).

In chapter 3, methodological choices for this thesis are presented and discussed. In addition to describing how empirical data was collected, classified and analyzed, the case Family Business is presented in depth.

In chapters 4 and 5, the research questions are answered. The first chapter focuses on describing how the stakeholder effects were born in the relationship between the next generation and the Family Business. The second outlines ways in which family governance played a part in this.

In chapter 6 research findings are discussed and their significance assessed. Comparison to previous research in the field of family business is conducted. Finally, in chapter 7 the research is summarized, and its implications discussed. Also, limitations and future research prospects are considered.

## 1.4 Important vocabulary

In order to avoid confusion with terminology, this chapter provides definitions for important vocabulary used in this thesis. Perhaps the most noteworthy distinction is that between general and particular when using the term family business: a family business and the (case) Family Business. Readers should also remain attentive when referred to the whole family business system, and when to a single subsystem in it, for example, family, business or ownership.

**family business**

When written in lower case, refers to family businesses in general. Refers to the entire family business system, including subsystems of business, ownership and family. A definition for family business is given in chapter 2.1.

**case Family Business / Family Business**

When written in upper case, refers to the subject of this case study, introduced in chapter 3.3.

**business(es) / company(ies)**

A subsystem of family business. Refers to the business in family business(es) in a strictly operational sense. When used in this thesis, excludes aspects of family and ownership.

**owners / ownership**

A subsystem of family business. Refers to the owners in a family business, who in the case Family Business also belong to the family subsystem.

**family / family circle / family subsystem**

A subsystem of family business. Refers to the family in a family business. Can include both stock-owners and non-stock owners. Membership in the family is defined by relationship, not ownership.

**spontaneous communication**

A term used in this study to refer to communication that takes place without initiating. Usually takes place within one family branch.

**planned communication**

A term used in this thesis to refer to communication practices instituted by family governance. Planned communication differs from spontaneous communication in that it is initiated by formal communication structures, and is available to the whole family subsystem.

## 2 Theoretical framework

This chapter reviews relevant studies and theories in the fields of family business studies and organizational communication. The theoretical framework consists of theories that explain the distinctive features of family businesses, their development over time, and their need for on-going communication.

In chapter 2.1, family businesses and their unique challenges related to family ownership are defined. Effects of intergenerational development are discussed in order to better understand the rising complexity and family-related challenges that maturing family businesses face.

In chapter 2.2, the changing communication needs of business-owning families are discussed. A case is made for bridging the communication gap which is born in family businesses in the second and third generations. Family governance is introduced as a way to manage the rising complexity and reintroduce intra-family communication within the family business system.

### 2.1 Family businesses and intergenerational development

This chapter focuses on defining family businesses and their unique challenges caused by family ownership.

First, the term family business is defined and the three-circle model of the family business presented in chapter 2.1.1, after which the model will be used to analyze roles and transitions within the family business system in chapter 2.1.2.

Then, the concepts of succession and complexity will be discussed in chapters 2.1.3 and 2.1.4, respectively. Ultimately, the case will be made for introducing planned communications within the family business, the subject of chapter 2.2.

#### 2.1.1 Systems of family, business and ownership

In order to provide a sound framework for this study, the concept of family business should be defined with precision. What constitutes, and what does not, a family business? A definition widely cited in the family business field is one provided by the European Union (EU). According to the EU (EU 2019), a family business fills the following four requirements:

1. The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child, or children's direct heirs.
2. The majority of decision-making rights are indirect or direct.
3. At least one representative of the family or kin is formally involved in the governance of the firm.
4. Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants

possess 25 percent of the decision-making rights mandated by their share capital. (EU 2019)

In light of this definition, and the many others which follow it, family ownership is what sets family businesses apart from non-family businesses. However, while these requirements are likely filled by all companies which regard themselves as family businesses, they may not be able to capture the essence of family entrepreneurship.

Indeed, this definition also fit many companies for which the label of family business may not be the most suitable one. For example, according to this definition, a company owned and run by a single entrepreneur would constitute a family business, even though the family is not involved or there is no intention of doing so in the future.

For this reason, taking into account the aspect of generational change may be fruitful (Craig and Moores 2017, 5). According to Craig the "intention to transfer the firm moves the definition beyond ownership, management, and control components to embrace what is often regarded as the essence of family business – their intended continuity of ownership" (Craig and Moores 2017, 5).

It is with this addition that the term family business be used in this thesis. A family business is – in addition to filling certain requirements about ownership and governance – characterized by an intention to last from generation to generation. Understanding family businesses in this way is fruitful for this thesis, for it expands relevant questions about family entrepreneurship from just business issues to family and ownership issues.

One of the most fundamental frameworks to understand the complexity of family businesses is the three-circle model developed by Tagiuri and Davis in 1978 (see Figure 3). Tagiuri and Davis illustrated family businesses with three overlapping circles: one for the business, one for the family, and one for ownership. According to Davis, their interconnectedness indicates that what happens in one circle influences the others (Davis 2018).

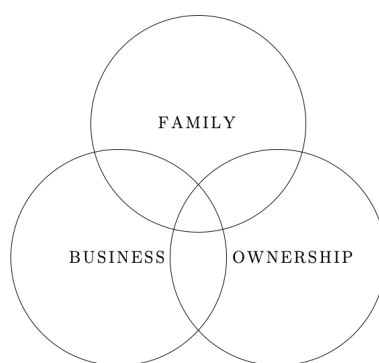


Figure 3: The three-circle model of family business (Tagiuri and Davis 1996).

Although already 40 years in age, the three-circle model continues to ring true to date (Sharma, Blunden, et al. 2013). According to Davis, it is being actively used by business-owning families to gain insight into the inner workings of their family

business and business family relationships (Davis 2018). The strength of the model is that all family businesses can be described by the model, and every subsystem can be better understood with it (Davis 2018).

Davis writes that, "if one circle, say the family, is in conflict or stuck, it can pull down the performance of the other circles and stall out the development of the entire family business system", and that "on the other hand, a high-performing business can create pride in a family and build unity in the ownership group" (Davis 2018).

In other words, the different subsystems can affect one another in the positive or in the negative, depending on how healthy they are. In the following, a short introduction to each of the subsystems and their primary concerns is given.

The business subsystem concerns itself with business related issues. These issues are common to all businesses, and differ none whatsoever in family businesses. Actions in this subsystem include all those related to running the day-to-day operations of a business organization, like product development, marketing and human resources. Measures in the business subsystem are carried out by management, and success is measured in business performance.

The ownership subsystem focuses on more strategical issues and therefore the long-term stewardship of the business. Actions typically include defining business purpose, making strategic decisions and choosing competitive leadership, and are carried out by shareholders. In a family business, this subsystem is also concerned with managing the internal relations of the shareholder group.

The family subsystem is concerned with family issues. Areas of interest revolve around family welfare, and success is measured in family harmony and commitment to the business. In order to achieve that, many family businesses engage in educating the family about ownership, keeping them informed about the business, and defining shared rules and values with regards to managing the family business (Carlock and Ward 2010).

The three-circle model is highly relevant for this study, for it helps understand the different forces which affect a family business. It has been written, that increasing the performance of the family business requires actions in the business, ownership and family circles of the family business system (Sharma, Blunden, et al. 2013). Similarly, failing to manage one of these may pull down the performance of the whole system.

Sharma has written, that "for longevity and prosperity, like all other businesses, a family firm must achieve efficiency and effectiveness focused business goals" (Sharma, Blunden, et al. 2013). However, in a family business, this doesn't guarantee success in the long term. In addition, she continues, "family-oriented goals such as harmony, generational transition, and ownership issues must also be managed" (Sharma, Blunden, et al. 2013). The subject of this thesis – next generation integration – generally falls into this category.

### **2.1.2 Roles and transitions within the system**

The three-circle model is also a useful tool for identifying different roles within the family business system, because all internal stakeholders of a family business have a

unique place in the three-circle model (Sharma, Blunden, et al. 2013). In total, the model can help identify seven distinct subgroups ranging from family members to employees to owners, and combinations of these (see Figure 4).

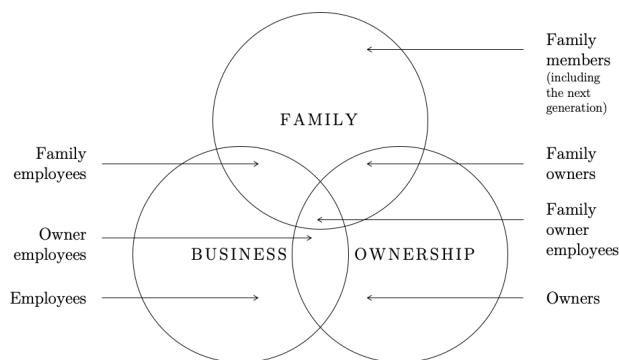


Figure 4: Stakeholders in a family business.

Each of the seven subgroups identified by the three-circle model has its own legitimate interest in the family business (Davis 2018). According to Davis "no one viewpoint is more legitimate than another, but the different viewpoints must be integrated in order to set future direction for the family business system".

Davis also writes that "the long-term success of the family business systems depends on the functioning and mutual support of each of these groups" underlining the fact that family business performance essentially boils down to the people who make up each of the subgroups in the three-circle model (Davis 2018).

Four of these subgroups have stakes in more than one circle. Such is the case with family employees, family owners and owner employees, who sit at the intersection of two circles, and family owner employees, who sit at the intersection of all three circles (Davis 2018). Holding such a role bears the risk for role dilemmas, and requires an understanding of appropriate means in each position.

Looking at the three-circle model through different roles underlines the fact that a family business consists of different entities – in this case different people – whose support and contribution is needed for the whole system to function. In Davis' words, "it becomes apparent that every group in the system has its own, legitimate interest in the family business, and all groups need to be respected, responded to and integrated in some way into the policies and decisions of the company" (Davis 2018).

The three-circle model can also be used to visualize transitions within the family business system. According to Gersick, a person's movement from one circle to another can stimulate a general reaction in the entire system (Gersick 1997, 16). He writes that "the system's adjustments to these boundary-crossing journeys of its members, and the meaning of those journeys in the lives of the individuals, are at the core of the entire family business phenomenon" (Gersick 1997, 16).

Following this, the three-circle model helps understand both the starting point and desired outcome of next generation integration in the case Family Business. The next generation members, whose integration to the Family Business is the subject of this study, are family members and thus populate the family circle. They may have



briefly been employed by the Family Business, making them family employees, but none are yet owners.

In the future, however, it is the goal of the Family Business and the current owners, that ownership be passed on to the next generation. In terms of the three-circle model, this would mean the next generation assuming the position of family owners, and possibly the position of family owner employees, if they were to hold an operational role in the Family Business as well.

Thus, Gersick's boundary-crossing journeys (Gersick 1997, 16) are at the core of this study. This study interests itself in next generation integration, in other words, how the next generation moves from the family circle towards the ownership and business circles. Notably, none of these transitions happen automatically, but require thoughtful strategies and governance (Carlock and Ward 2010).

### 2.1.3 The succession process

According to a traditional definition, succession means the transition of family business leadership and ownership from one generation to the next (Aronoff, McClure, and Ward 2011, 4). More often, though, it's understood in a much broader sense.

According to Aronoff, McClure and Ward, "succession is a lifelong process of planning and management that encompasses a wide range of steps aimed at ensuring the continuity of the business through generations" (Aronoff, McClure, and Ward 2011, 4). Morris, Williams and Nel, on the other hand, define it as "the dynamics that precede and lead up to the actual transition, as well as the aftermath of the transition and its implications for the various involved parties" (Morris, Williams, and Nel 1996).

Similar to both definitions is that they view succession as a process instead of a transfer. Indeed, many of the steps in the succession process have little to do with technical aspects, such as tax-planning or the actual gifting of the shares, but more with emotional issues related to assuming or letting go of a role in the family business.

Hughes, Massenzio and Whitaker see an outright danger in treating succession as a mere transfer (Hughes, Massenzio, and Whitaker 2012). According to them, receiving shares of a family business is essentially a responsibility. They write: "If the meteoric gift comes without spirit, education, and preparation – that is, if it is really a transfer rather than a gift – it will either destroy the recipient's psychic environment or disintegrate on impact"

Studying these transitions has been at the center of family business research for decades, and rightly so, for succeeding in them gets less likely by the generation. By the third generation, only 10 % of family businesses remain in existence, meaning that 90 % of family businesses fail in the first two successions (see Figure 1 on page 9).

However, as noted by Chrisman, most of the studies on succession have focused on management transitions while relatively little attention has been given to ownership transitions (Chrisman 2013). Chrisman considers, that this may be due to "an implicit assumption that management and ownership are part of the same process".

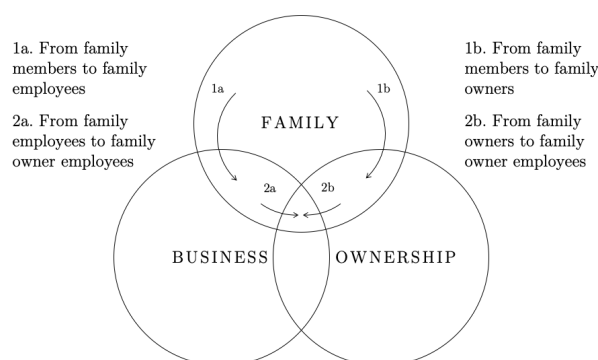


Figure 5: The succession process as movement within the three-circle model. Figure drawn by the author of this thesis.

For example, Handler (Handler 1991) has identified three stages in the succession process: personal development of the heir apparent prior to working in the firm, business involvement of the heir, and leadership succession. Notably, all of Handler's three stages are deeply rooted in the business subsystem, with no mention of passing on ownership.

Similarly, in their article "Factors influencing family business succession" Morris, Williams and Nel completely focus on assuming a leadership position in the family business whilst omitting all mention of ownership (Morris, Williams, and Nel 1996). In these cases, integration to the family business is done through the business subsystem, a transition which could be depicted by arrow 1a in Figure 5.

In general, in much of family business research dated before the 2000s, passing on ownership seems to be simply the aftermath of succeeding an operational role in the family business (see arrow 2a in Figure 5). Also, a lot of focus is given to identifying and grooming an heir, a future CEO, perhaps due to the assumption that succession means first and foremost as assuming a leadership position.

To date, far less information exists on succeeding an ownership position outright, a transition which could be depicted by arrow 1b in Figure 5. Much less is known about the strategies and governance that support such transitions, especially in cases where no single heir is selected, but ownership is allowed to dilute amongst a larger number of family members.

#### 2.1.4 Intergenerational development and complexity

Gersick furthered Tagiuri and Davis' three-circle model by adding development over time to it (Gersick 1997). The result was a three-dimensional developmental model of family business (see Figure 6). For each of the three subsystems – ownership, family and business – there is a separate developmental dimension (Gersick 1997, 16).

In addition to having a business life cycle, family businesses go through life cycles of their own on the family and ownership axes. According to Carlock, these predictable transitions bring about challenges as both families and businesses grow

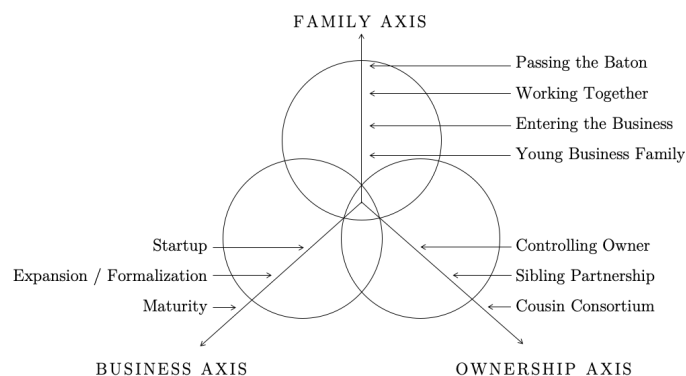


Figure 6: The three-dimensional developmental model of family businesses (Gersick 1997).

and mature (Carlock and Ward 2010). These transitions also affect one another, for just like in the three-circle model, they are interdependent of one another (Gersick 1997, 16).

Given the subject of this thesis, the ownership axis merits a deeper look. Developmental stages on the ownership axis include the Controlling Owner stage, the Sibling Partnership stage and the Cousin Consortium stage. Some add a fourth developmental stage for distant relatives, but the Cousin Consortium can be used to refer to more distant cousins, too.

Moving from one stage to another on the ownership axis is achieved through the succession process, where the next generation takes responsibility of the family business. In the previous subchapter, succession was defined as individuals' movement from the family circle towards the ownership and business circles (see Figure 5). Making these transitions successfully results in the intergenerational development of a family business.

According to Gersick, the structure of ownership in a family business can remain static for generations, even as the individual owners change (Gersick 1997, 30). Indeed, many family businesses never enter the Sibling Partnership or Cousin Consortium stages, but remain in the hands of one Controlling Owner after another.

More often, however, ownership becomes increasingly diluted from a single majority owner, to a few or several owners, and then on to a much broader distribution, as Gersick writes (Gersick 1997, 30). Thus, at every generation the business-owning family gets larger and shareholders more plentiful. Most academics agree, that this development is a source of complexity in the family business system.

Gimeno Sandig et al. define family complexity as "the number of family members and the kind of relationships established among them, the number of generations alive at a given point in time, and so on" (Gimeno Sandig et al. 2006, 147). Increasing family complexity makes it harder to align family and business interests, which was defined by Davis as the basis for lasting family business success (Davis 2018).

According to Miller and Le Breton-Miller, one of the first business repercussions of a broad dispersion of ownership is the replacement of stewardship over the company by personal interests (Miller and Le Breton-Miller 2006). Ward has also noted that

when individual owners' ownership stakes decrease, so does their interest in the business (Ward 2002).

This can cause dramatic shifts in the financial demands of ownership when shareholders become more interested in dividends rather than stewarding the company (Ward 2002). In terms of business continuity, this is an unfavorable development. When the family loses its commitment towards the business, selling the business starts to present itself as viable option.

As a solution to the increasing family complexity, some researchers have suggested pruning the family tree "by reducing the number of family shareholders, splitting up the family business, reducing the number of family managers, and so forth" (Lambrecht and Lievens 2008). By doing so, simplicity is reintroduced in ownership, governance, and/or management structures, and the family's commitment towards the business possibly restored.

According to Lambrecht, introducing simplicity by pruning can be a worthwhile path to family harmony and business performance (Lambrecht and Lievens 2008). However, if a family business doesn't wish to limit the number of shareholders, it has to manage the rising complexity in some other way. Usually this is done by introducing more rigorous control mechanisms between the family and the business, a practice most often referred to as family governance.

## 2.2 Family governance and communication in managing complexity

In the previous chapter, family business systems were described to get more complex with time. This chapter presents planned communication as a way to deal with the rising complexity, and to keep the family interested and invested in the stewardship of the business.

First, chapter 2.2.1 outlines how communication changes in different generations of a family business and what challenges this poses for family business continuity and next generation integration.

Third, in chapter 2.2.2 a look will be taken at some of the most common practices that family businesses utilize to foster communication within the business-owning family, and between the family and the business.

Fourth, several positive effects of planned communication, or family governance, will be discussed in chapter 2.2.2, and finally, the stakeholder theory will be introduced to better understand the importance and nature of next generation integration.

### 2.2.1 Communication in different generations

The three-dimensional developmental model (see Figure 6 on page 19) helps understand the changing communication environment in family businesses. When the business matures, and the business-owning family gets larger, family members become more removed from one another and the business (Magretta 1998).

As a result, natural communication within the family business system decreases. This brings about changes regarding how decisions about the business are made and

communicated, how information flows between the business and the family, and how the family builds its relationship with each other and the business, including the next generation.

According to Sarbah, having newer generations and more members join the family business implies different ideas and opinions on how the business should be run and how its strategies are set (Sarbah and Xiao 2015). Typically, natural communication gets less scarce at the same time when more communication would be needed to accommodate the different views of all the family members and to support their integration to the family business.

In family business literature, this development is often referred to as the "communication gap". This gap forms and gradually widens in the second and third generations of family business development (Magretta 1998). Labaki found that family ties strengthen in the second generation, and then significantly weaken in the third (Labaki 2007). A visual representation of this is portrayed in Figure 7.

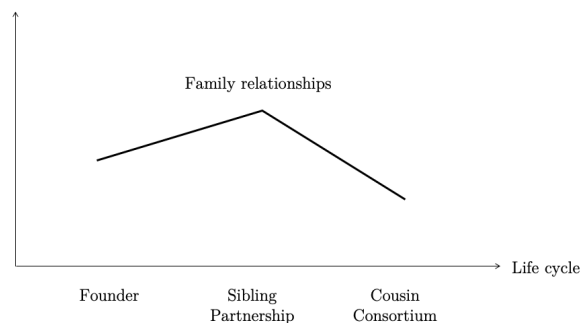


Figure 7: Dilution of family relationships across time (Labaki 2007).

In order to better understand these changes and their implications, a brief look will be given to communication in the first three stages of family business ownership: Controlling Owner, Sibling Partnership and Cousin Consortium.

In first generation family businesses characterized by the Controlling Owner stage, communication within the family business system occurs naturally and effortlessly. There is little or no distance between the three subsystems, for they are often controlled by one person. The founder is also naturally committed to the business, for it is his or her own creation (Gersick 1997).

For these reasons, family businesses in the Controlling Owner stage of ownership rarely have, or even need, formal communication structures. It has been written, that at this stage "very few family governance issues may be apparent as most decisions are taken by the founder and the family voice is still unified" (Sarbah and Xiao 2015).

However, in Sibling Partnerships, the distance between the family and the business is already growing. Not all members of the second generation may be working at the family business. According to Gersick, those not employed by the family business may feel that they are asked to give a "blank check" endorsement for decisions regarding the family business (Gersick 1997).

This sets new demands for making and communicating decisions. Owners are now siblings, and decisions regarding the family business need to be made together, which calls for dialogue and suitable forums to support it. For these reasons, this is often the stage where first formal communication practices are introduced. Their challenge is also to bring in their children, the third generation (Carlock and Ward 2010).

In third generation family businesses, Cousin Consortiums, there is already significantly more distance between the family and the business. Members of this generation are cousins with one another, whom have grown up in different families. According to Gersick, the personal connections that have been so powerful in the first two ownership stages are almost certainly diluted here (Gersick 1997, 49–50).

At this stage, Lambrecht writes, "the family starts to lose cohesiveness because an increase in the number of shareholders leads to differences regarding personal goals, values, commitment to the business, and so forth, and to a dilution in their relationships with one another" (Lambrecht and Lievens 2008). The danger is that the third generation has nothing in common but their financial interests in the family business (Gersick 1997).

The challenge for family businesses is raising the next generation's interest in stewarding the business, instead of the flow of dividends. According to Gersick, business-owning families in this stage of ownership need linking mechanisms that allow them to continue integrated operations in the face of dramatic decentralization and diversification (Gersick 1997, 85). The most important one of these linking mechanisms is, he writes, communication.

If neglected, there is a significant risk of losing the family's knowledge and commitment (Carlock and Ward 2010). According to statistics, only 10 % of family businesses make it to this stage (Brenes, Madrigal, and Requena 2011) (see Figure 1 on page 9), hinting of the level of difficulty of integrating later generations of a family business.

According to Ernst & Young (EY), succession processes most often fail due to communication challenges within the family (60 %) and incomplete introduction of the next generation to the family business (25 %) (Ernst & Young 2018). These figures suggest, that the presence or lack of communication within the business-owning family is one of most important defining factors for family business continuity.

In order to keep the entire business-owning family interested and invested in the business, family businesses need to find new ways to reconnect with each other and the business in a relevant manner (Carlock and Ward 2010). Thus, reintroducing communication into the family subsystem often proves itself a worthwhile pursuit for family businesses in later ownership stages.

### **2.2.2 Family governance as planned communication**

Within family business research, quite little is written about communication in the family business system. Communication studies focus largely on interpersonal communication, for example the relationship between a father and a son, whilst an organizational perspective seems to be largely missing. Studies concerning how

business-owning families communicate on a systemic level generally fall under the broader topic of family governance.

Family governance refers to all the measures that are used to formalize the relationship between the business and the business-owning family (Lambrecht and Lievens 2008). Essentially, many of those measures are communicative in nature, and they serve to compensate for the communication gap born in family businesses after the first and second generations (Craig 2015).

Family governance is quite hard to define comprehensively. Unlike corporate governance and boards of directors, which are largely controlled by external requirements, family governance takes the form and function which best serves the business-owning family in question. At a glance, definitions seem to fall on a spectrum of control and enabling.

The definitions emphasizing control see the business-owning family as a potential source for conflict. In this context, family governance is characterized as a control mechanism which protects the business from family-based hazards. For example, Egon Zehnder defines family governance as the "mechanism according to which decisions are made and authority exercised" thus emphasizing its usefulness as a control component (Egon Zehnder and The Family Business Network International 2018).

The definitions reflecting enabling see the business-owning as one to be integrated to the family business. In this context, family governance is seen as a way for the business-owning family to remain close to the business in the lack of human relationships to support such proximity, such as the relationship with the company's founder.

For example, Dartt and Hargrave reflect this kind of view by defining family governance "as a process or structure to educate and facilitate communication between family members" (Dartt and Hargrave n.b.). In terms of awakening the next generation's interest towards the business, and not the flow of dividends, this seems like an interesting approach. Without meaningful interaction with the family business, the next generation is unlikely to develop a close relationship with it.

In reality, family governance includes both aspects, and most definitions fall somewhere in between the two opposites. For example, Craig includes both "natures" of family governance, by writing that successful multi-generational families "set up forums such as a family meeting to educate each other about what it means to be a part of their family. They are transparent and accountable and take the time to set guidelines related to roles, requirements for the role, responsibility for the role and how they will be remunerated for each particular role" (Craig 2015).

Family governance arguably serves many purposes in the family business system, both within the business-owning family, as well as between the business and the family. Overall, its purpose is to ensure the optimal functioning of the business-owning family, so that it best supports the business.

What this entails evolves with time, depending on the size and configuration of the family (Dartt and Hargrave n.b.). Young business families need little formal structures, whereas older ones need to be increasingly intentional about communication methods and decision-making processes (Dartt and Hargrave n.b.), and their governance

structures can become highly evolved (see Figure 8).

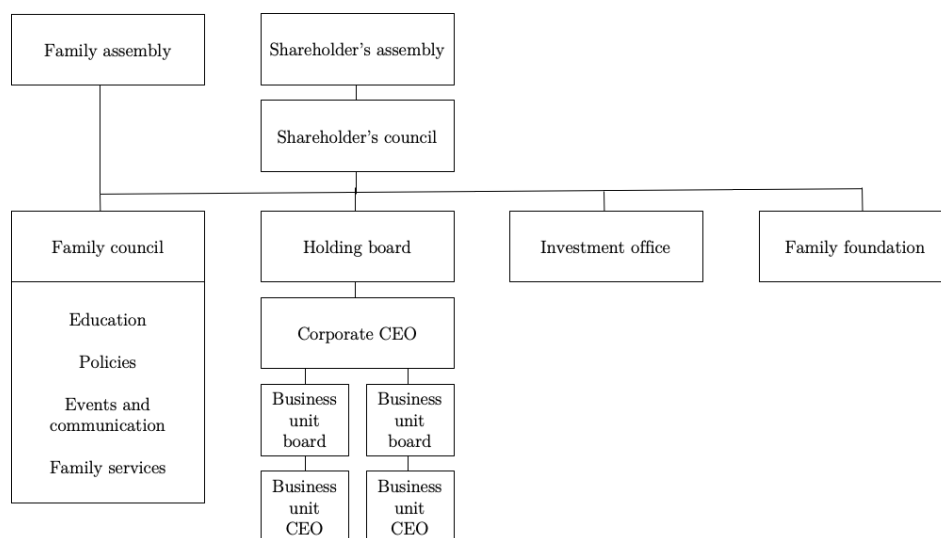


Figure 8: An evolved family business governance structure, with family governance structures, the family assembly and family council, on the left (McKinsey 2014).

If definitions for family governance vary, so does the terminology used to refer to the individual measures within it. In family business literature, there seems to be a myriad of ways to classify and group the different measures. For example, Lambrecht (Lambrecht and Lievens 2008) divides family governance into family assemblies and family councils, boards of directors and the family constitution, whereas Carlock (Carlock and Ward 2010) mentions family meetings, family education and family agreements as typical forms of family governance.

Most authors, however, mention some type of meetings and some type of agreements. For example, Sharma writes that "progressive family firms often use a combination of governance structures or bodies that meet at regular intervals, and legal or social agreements, to ensure the preferences and views of owners, employees, and family in the three-circle model can be heard and managed" (Sharma, Blunden, et al. 2013).

Family meetings can serve many purposes within a business-owning family. Their objectives can be, for example, providing a forum for constructive discussion, problem solving and decisions (Dartt and Hargrave n.b.), maintaining close relationships with family members (Carlock and Ward 2010), educating the family about business and ownership related issues (Carlock and Ward 2010), making the flow of information toward the owners more fluid (Lambrecht and Lievens 2008), and preserving and strengthening family values (Lambrecht and Lievens 2008).

Family meetings ensure that the business-owning family meets at regular intervals to discuss important topics. They become important when the family would no longer do so naturally, for reasons explained in chapter 2.2.1. In later generation family businesses, these meetings often serve as the family member's link to the business, thus playing a part in next generation integration.



Social and legal agreements, on the other hand, typically serve to clarify the family's conduct toward its business (Heyden, Blondel, and Carlock 2005). These agreements usually detail policies regarding topics such as succession, recruitment of family managers, appointment of family and non-family board members and share ownership (Heyden, Blondel, and Carlock 2005), with the intention of providing "a functional behavioral framework" for the business-owning family (Gimeno Sandig et al. 2006).

Different forms of family governance also support one another. In her master's thesis, Wrede found that making an owner strategy enhanced communication within the business-owning family (Wrede 2017). On the other hand, family meetings provide the business-owning family a time and place to discuss their aspirations regarding the business. Overall, family governance seems to be an important source of on-going communication within the family subsystem of a mature family business.

### 2.2.3 Benefits of family governance

Within the business-owning family, family governance has been found to improve communication, encourage fairness, and sustain commitment (Carlock and Ward 2010, 200), establish trust, commitment, and harmony (Heyden, Blondel, and Carlock 2005), and be a valuable instrument for the preparation of succession (Lambrecht and Lievens 2008), all of which can have a positive impact on the family business.

In this chapter, several benefits of family governance will be assessed with more detail. Those are (1) an increased sense of fairness, (2) alignment of family and business goals and (3) minimizing the negative aspects of family ownership.

First, family governance has been suggested to increase family members' sense of fairness by strengthening principles of fair process within the family business (Heyden, Blondel, and Carlock 2005).

According to Heyden et al. family businesses create many opportunities for injustice due to their systemic nature (Heyden, Blondel, and Carlock 2005). They write that "injustice in one subsystem, or two subsystems will typically have negative implications beyond these areas, ultimately threatening the viability of the entire family business system" (Heyden, Blondel, and Carlock 2005).

The most common injustice is, according to the authors, "lack of fairness in the decision and managerial processes governing family businesses and their associated families" (Heyden, Blondel, and Carlock 2005). To shield family businesses from this undue conflict, Heyden et al. propose five principles drawn from procedural justice to build fairness in decision-making processes, which are listed below:

1. Communication: Giving a voice to all those concerned
2. Clarity: Having clear procedures, principles and expectations
3. Consistency: Acting consistently across people, over time, and with agreed values and norms
4. Changeability: Allowing for changes in decisions, processes, goals, and principles

## 5. Commitment to fairness

Remarkably, most of the principles outlined by Heyden et al. are at the core of family governance. By instituting bodies and processes which support information sharing, decision-making, dialogue and participation – i.e. family governance – business-owning families essentially increase procedural fairness within the family business system.

According to Heyden et al., fair process is an essential part of establishing trust, commitment, and harmony in family businesses (Heyden, Blondel, and Carlock 2005). They attest that improvements in procedural fairness can be expected to improve both the businesses' performance and the commitment and trust of the individuals involved with it (Heyden, Blondel, and Carlock 2005).

The authors also mention a benefit in relation to the next generation. They write that "another positive result of fairness is that the family firm is better able to attract next-generation family members, as well as qualified non-family managers or shareholders", suggesting that family governance plays a role in integrating and committing the next generation to the family business, and thus increasing the likelihood of succession.

Without any meaningful participation or influence, the authors continue, the next generation may reduce its participation and commitment. According to Heyden et al., "this breakdown of intergenerational communication typically originates through a lack of communication and voice, and it can lead to potentially grave consequences, including the loss of valuable energy in the next generation and, ultimately, the sale of the business" (Heyden, Blondel, and Carlock 2005).

If family governance is indeed successful in establishing structures which increase communication, clarity, consistency, changeability and commitment to fairness within the family subsystem of the family business, family members may expect an increase in procedural fairness which, according to the authors, benefits the family business in a myriad of ways explained above.

Another suggested benefit of family governance is the alignment of goals between family, ownership and management.

Within family business research, a lot of interest has been directed to comparing whether family businesses perform better or worse than non-family businesses, but no comprehensive answer has been found (Gomez-Mejia et al. 2011). Dyer has contributed to this pool of research by examining the "family effect" on firm performance (Dyer 2006).

Dyer claims that under certain conditions, family businesses may perform better than their non-family counterparts (Dyer 2006). According to him, family factors which contribute to high performance include alignment of goals between the ownership and management, and high trust and shared values among family members. (Dyer 2006)

In Dyer's assessment, the type of family business that is likely to achieve high performance is one with low agency costs and high family assets. Dyer calls this the "clan family firm", where the family attempts to meet both firm and family needs, and family relationships enhance the firm's ability to leverage the owning family's

human, social, and financial capital (Dyer 2018).

Young family businesses, for example those in the Controlling Owner or Sibling Partnership stages of ownership, often naturally resemble the clan family firm. Agency costs are low due to overlapping roles of ownership and management, and family assets are high due to strong and durable family relationships.

However, in more mature family businesses with a broad dispersion of ownership, this is less often the case. Ownership and management roles are often separated, and family members are less likely share the same aspirations for the business. According to Lambrecht and Dyer, the family's different goals for the firm can cause high agency costs of conflict (Lambrecht and Lievens 2008) and even prove deleterious to firm performance (Dyer 2018).

In a family of higher complexity, on-going communication is needed to align goals between the family, ownership and management, as well as build trust and values among family members. Since family governance is about establishing structures to facilitate this kind of communication, it could be argued, that it is helpful in making the family resemble the clan family firm, and enjoy from the benefits associated with it.

Third, benefits of family governance can be assessed through the family-based assets that it helps strengthen and the hazards that it helps prevent. In the same fundamental article that yielded the three-circle model, Tagiuri and Davis introduced seven bivalent attributes of family business. According to the authors, they are unique, inherent features of family businesses that account for both their strengths and their weaknesses (Tagiuri and Davis 1996).

The bivalent attributes are, as listed by Tagiuri and Davis, simultaneous roles, shared identity, lifelong common history, emotional involvement and ambivalence, private language, mutual awareness and privacy, and meaning of the family company (Tagiuri and Davis 1996). Depending on how they are managed, they can be either an advantage or a disadvantage to the family business.

Since family governance revolves around creating shared understanding regarding many of these aspects, it very likely plays a part in maximizing the positive consequences of the bivalent attributes whilst minimizing the negative ones.

#### **2.2.4 Stakeholder theory and the next generation**

Few theories of organizational communication are applicable to family businesses as such. As explained before, family businesses differ from other types of businesses due to the overlap of family and work systems (Sharma, Blunden, et al. 2013). This sets unique demands for communication, which are rarely accounted for in standard communication theories.

One theory flexible enough is the stakeholder theory, which presents itself as an interesting lens to the relationship between the Family Business and the next generation. Freeman originally defined stakeholders as “groups and individuals who can affect, or are affected by the achievement of an organization's mission” (Freeman 1984, 52).

This definition is useful, for it takes into account groups and individuals, who

don't have a formal relationship with the organization, but clearly hold a stake in it. For example, next generation members are not bounded to the Family Business by any law or contract, but as future owners, constitute an important group of stakeholders.

The drawback of the stakeholder theory is that it easily calls attention to a whole host of stakeholders. In order to identify the most important stakeholders, the concept of stakeholder salience was developed (see Figure 9). According to Mitchell et al, stakeholder salience can be assessed with three attributes: power, legitimacy and urgency (Mitchell, Agle, and Wood 1997).

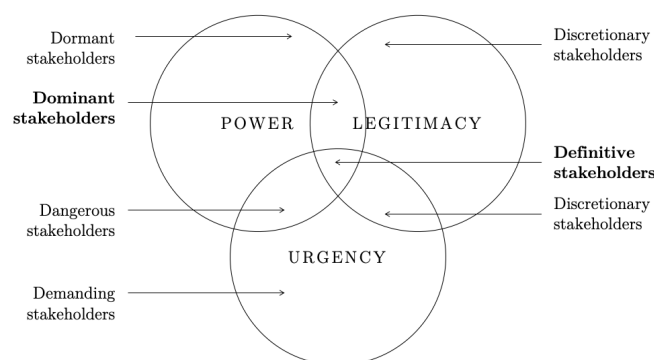


Figure 9: Stakeholder salience model (Mitchell, Agle, and Wood 1997).

The more attributes a stakeholder or a group of stakeholders possesses, the more salient it is to an organization (Mitchell, Agle, and Wood 1997). Just like in the three-circle model of family business, the most important groups of people sit at the intersection of two or more circles. For example, current owners most likely occupy the center of the model.

According to Cornelissen (Cornelissen 2014, 46), dominant stakeholders have power because there is always the possibility that they may decide to withhold their investment or labour, for example. This classification seems to fit well with next-generation members of business-owning families. As future owners, they are salient stakeholders whose choices may have dramatic effects on the family business system.

According to Cornelissen (Cornelissen 2014, 51), those stakeholders who are salient or have a powerful interest in the organization need to be communicated with on an on-going basis so that they continue to support the organization. In practice, this comes down to providing the stakeholders with the type of information about the company's operations they have an interest in (Cornelissen 2014, 46).

Assessing and encouraging next generation commitment has been an interest within family business research, too (Sharma and Irving 2005). For example, Sharma has distinguished between four types of family business successor commitment. The most desirable one – affective commitment – is born, when the next generation member shares the same aspirations and goals as the family business (Sharma and Irving 2005).

However, quite little is known about what keeps the next generation interested in the family business so that they, in Cornelissen's words, continue to support the organization. For example, Sharma recommends that those with the less desirable forms of commitment should be directed to pursue their interests outside of the family business. In terms of raising the next generation of responsible and active owners, this is a questionable recommendation.

Critics of the stakeholder theory point out, that it focuses too much on the identification of stakeholders. Recognizing, analyzing and examining the characteristics of a stakeholder group is only fruitful to an extent (Mainardes, Alves, and Raposo 2011). Instead, as Mainardes et al point out, "the stakeholder theory should focus on the creation of value, decision-making processes and relationships with real individuals" (Mainardes, Alves, and Raposo 2011).

Mainardes et al propose, thus, the concept of stakeholder management. In their view, it should be carried out on the following three levels:

1. The identification of stakeholders
2. The development of processes identifying and interpreting their needs and interests
3. The construction of relationships with the entire process structured around the organization's respective objectives

One way to assess the relationship between the organization and its stakeholders is the stakeholder communication model (see Figure 10). The stakeholder communication model suggests, that a stakeholder's relationship with the organization progresses from lower to higher proximity, with the first step being awareness, the second understanding, the third involvement and the fourth commitment (Cornelissen 2014, 51).

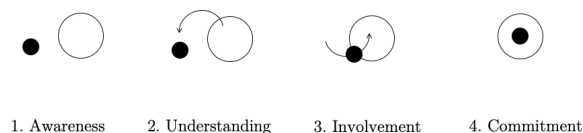


Figure 10: Stakeholder communication: from awareness to commitment. (Cornelissen 2014, 51)

In fact, the scope of this thesis could be described with the help of Mainardes' list. By interviewing next generation members of the case Family Business (1), this

thesis aims to gain understanding as to what contributes to a closer relationship with the Family Business (2), and eventually contribute to the development of a communication system that delivers value to the Family Business and its many stakeholders (3).

To go back to the field of family business, Heyden et al argue that "not only must the family design and operate a business system that creates value for its customers, employees, shareholders, and family members, it must also sustain the system beyond the horizons of the current actors toward further shareholders, next-generation family members, and future employees" (Heyden, Blondel, and Carlock 2005).

Many in family business research see communication as a way to build such a system. However, fairly little emphasis is given to what that communication should entail. Thus, more information on how the next generation builds its relationship with the Family Business is needed to structure a communication system that best serves the strategic purpose of the Family Business, namely preparing the next generation for responsible and active ownership.

## 3 Methodology

Research methods refer to the ways in which data has been collected, classified and analyzed. This chapter presents the methodological choices made for this study, including the research method in chapter 3.1, data collection and analysis in chapter 3.2 as well as the chosen case in 3.3. These choices will also be discussed in terms of why they were suitable for this study.

### 3.1 Research method

This thesis is a qualitative case study of next generation integration in one Finnish family business, the case Family Business. According to Lewis, qualitative methods are best for researching many of the why and how questions of human experience (Lewis-Beck, Bryman, and Liao 2003). A qualitative research method was suitable, for next generation integration is hardly a quantifiable phenomenon.

According to Denzin and Lincoln, qualitative research attempts to make sense of phenomena in terms of the meanings people bring to them (Denzin and Lincoln 2017, 2). It is likely, that the relationship between the next generation and the case Family Business is of complex and multifaceted nature, due to the many experiences, behaviors, feelings and emotions involved, and thus best researched with a qualitative method.

Moreover, this study is a case study. According to Stake, case studies can be divided into intrinsic and instrumental case studies (Stake 2003, 136–138). Intrinsic case studies are interested in the particular case under study, whereas instrumental case studies are examined mainly to provide insight into an issue or generalization (Stake 2003, 136–138).

Based on these distinctions, this study is mainly an intrinsic case study. Its purpose is to primarily understand the particular case in depth, instead of facilitating our understanding of something else (Stake 2003, 136–138). Although this case is clearly of intrinsic interest, it may help other family businesses by discovering interesting patterns related to next generation integration and family governance.

Generalizations are to be avoided, for the case Family Business is a product of its own culture, history and norms. In Stake's words, each case has important atypical features, happenings, relationships, and situations (Stake 2003, 140). This case, such as any other sample of one, weakly represents the larger group of family businesses (Stake 2003, 152).

However, cases are expected to represent some population of cases (Stake 2003, 152). The case Family Business can be characterized by common family business traits, such as the developmental stages of ownership, business and family (Gersick 1997, 16). Ideally, this study would have instrumental value for other family businesses currently tackling or soon facing similar challenges due to a comparable ownership structure, business maturity and family composition.

## 3.2 Data collection and analysis

Since an existing model, the stakeholder communication model (Cornelissen 2014), was used to analyze the next generation's relationship with the Family Business, structured interviews were found to be the most suitable data collection method for this thesis. The interview guide can be found on page 68 in the appendixes section of this thesis.

It has been written that "those who want to find out about another person's feelings, thoughts, or experiences believe that they merely have to ask the right questions and the other's reality will be theirs" (Holstein and Gubrium 2003). However, according to Holstein and Gubrium, an interview can also be an occasion for constructing, not merely discovering or conveying, information (Holstein and Gubrium 2003).

Gubrium and Holstein suggest that researchers take a more "active" view of the interview and begin to acknowledge, and capitalize upon, interviewers' and respondents' constitutive contributions to the production of interview data (Holstein and Gubrium 2003). According to the authors, this can be done by constraining and provoking answers that are in the researcher's interest.

This kind of tactics were utilized in the data collection for this thesis. As mentioned earlier, interview responses were constrained by drawing the interview questions from an existing theory, the stakeholder communication model (Cornelissen 2014, 51). Interviewees were asked about their experiences around the four stakeholder effects in what the theory assumes to be their chronological order.

Within these categories, responses were provoked with the help of an empathy map (see Figure 11). The empathy map consists of 6 sectors for hearing, thinking and feeling, seeing, saying and doing, painpoints and successes. Filling in the empathy map in the course of the interviews encouraged the interviewees to come up with more detailed and versatile answers. It also gave them a way to approach difficult concepts, such as commitment, through less abstract means.

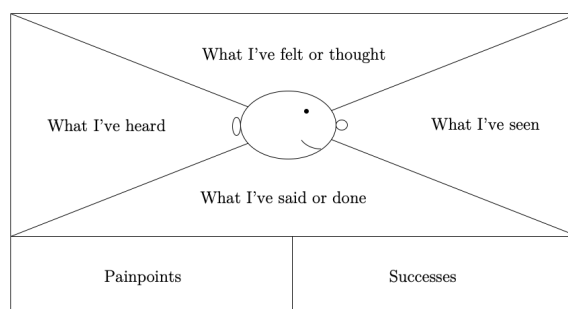


Figure 11: The empathy map used in the interviews.

In this manner, 12 interviews were conducted with next generation members of the case company. The interviewees were aged from 4 to 24 years old at the time of the interviews. The sample size represents the next generation of the case Family Business well, for only one next generation member, the author of this thesis, was not



interviewed. In addition, background interviews were conducted with 2nd generation members of the case Family Business and their spouses.

For the data analysis, interviews were transcribed and coded. The data was divided into categories by identifying themes and recurring patterns, as Saunders et al suggest (Saunders, Lewis, and Thornhill 2016). This was done with the help of the stakeholder communication model (Cornelissen 2014, 51) and the three-circle model of family business (Tagiuri and Davis 1996) which served as analytical tools to make sense of the interview data.

The findings are presented in chapters 4 and 5, beginning with the stakeholder effects and continuing with the role of family governance. Abbreviations R1–R12 will be used to refer to the respondents, and B1–B2 and C1–C4 to the travel sector businesses and the healthcare sector businesses, respectively. The case Family Business along with these sectors will be introduced in the following chapter.

### **3.3 Empirical case**

An important part of case research is bounding the case (Stake 2003, 155). This chapter serves to do that by introducing the case Family Business with common family business vocabulary. Stake writes that "In the social sciences and human services, the case has working parts; it is purposive; it often has a self. It is an integrated system." (Stake 2003, 155). Somewhat similarly, a family business is made up of family, business and ownership – aspects which will be used in bounding the case.

#### **3.3.1 A short history**

The case Family Business consists of multiple companies and is active in two separate sectors, healthcare and travel. Its history dates back to the 1960s when the founding entrepreneur, a doctor by vocation, began attending to patients at a private doctor's practice. In the following decades, the doctor's appointment grew from a single practice to a chain of healthcare centers.

In the 1970s the founding-entrepreneur branched out into travel. He acquired two skiing centers in subsequent decades in Northern Finland to develop alongside his other duties. The businesses started resembling a family business, when the founders' children started taking operational responsibilities in the 1980s and 1990s.

The succession was finalized in late 2000s when ownership was transferred in equal shares to the 2nd generation. By that time, the founding-entrepreneur, then in his 70s, had given up all his roles in the family business and retired. In the past two decades, the family business has known a time of strong renewal by investing heavily into the individual companies' growth.

#### **3.3.2 Current developmental stages**

The case Family Business can be described with the help of Gersick's three-dimensional developmental model (Gersick 1997) described in chapter 2.1.4.

On the Business Axis, the companies in the Family Business have mostly reached Maturity. According to Gersick, this stage is reached when the organizational structure and the key products have gradually slowed their evolution (Gersick 1997, 106). This is true in the Family Business: all companies have a tested business model and hold a solid position in established fields. However, the existing business is continuously developed and investments are made in promising directions, creating dynamics that resemble earlier developmental stages in Gersick's model (see Figure 6 on page 19).

On the Ownerships Axis, the Family Business is currently located at the Sibling Partnership stage. The family business is currently owned by five siblings in equal shares. It was previously owned by their father, the founding-entrepreneur. His time can be described by the developmental stage of Controlling Owner. The succession was carried out over a decade's time and completed in late 2000s. The current owners are intent on passing on ownership to the next generation in 10–20 years' time. If successful, the family business will reach the Cousin Consortium stage.

On the Family Axis, the Family Business can be described by two alternative stages: Young Business Family or Entering the Business family. The family consists of a total of 23 members in 2 generations: 5 second generation members aged 46 to 59, their 5 spouses of similar ages, and 13 third generation members aged 4 to 26 years old. The first-generation founder-entrepreneur has deceased recently. The entire family is difficult to describe with just one developmental stage, for age differences between the cousins are vast.

### 3.3.3 Effects of growing complexity

Due to its advancement on all developmental axes, the Family Business is getting more complex as a system. Complexity has grown within all subsystems of the Family Business: instead of 1 majority owner there are 5 minority owners, instead of one 5 siblings there are 13 cousins, and instead of 1 business there are 2 branches with multiple companies.

Due to these developments, the Family Business has had to rethink ways of organizing across all its subsystems. Practices of good governance have had to be developed for ownership, business and family alike. For example, with regards to ownership, the shift from Controlling Owner to a Sibling Partnership has signified a rising need for dialogue and shared decision-making, and the subsequent processes and forums to support it.

The Family Business is intent on remaining as a family business and passing on ownership to the next generation. Therefore, the question of integrating the next generation to the family business is a central one for the 2nd generation. The goal is not necessarily to groom the next generation for operational responsibilities but rather maintain their enthusiasm and promote good practices of ownership so that the companies continue to thrive in the future.

Like all mature family business, the Family Business worries how to keep the family close to the business when natural family ties weaken. What is the right age to learn about the Family Business? How to make sure that the next generation receives

adequate information about the Family Business? How to pass on the family's values and culture of entrepreneurship, not just shares? How to convey the idea that the next generation is welcome to participate but not obligated to do so?

### 3.3.4 Family governance and forms of planned communication

In order to integrate and expose the next generation to the Family Business, planned communication within the family subsystem was started in early 2010s. The first step towards planned communication was the Info Day introduced in 2007. The Info Day was a yearly recap of the companies' news. It tackled subjects such as performance, strategy and investments. At first, its purpose was to keep the founding entrepreneur informed about the business and to allow the 2nd generation to do their work in peace.

In the following decade, the Info Day became to encompass the whole family. At first, age limits were reinforced (see Figure 12). The two eldest cousins were invited to the Info Day in 2010 and 2012, when they came of age. A few years later, this age limit was lowered to 15 years, so that the third cousin could join. After this, it was decided that anyone interested in the Info Day was welcome, until the age limit was abandoned completely. Along the road, invitation to the Info Day was also extended to the spouses, who previously had had quite limited access to the companies' news.

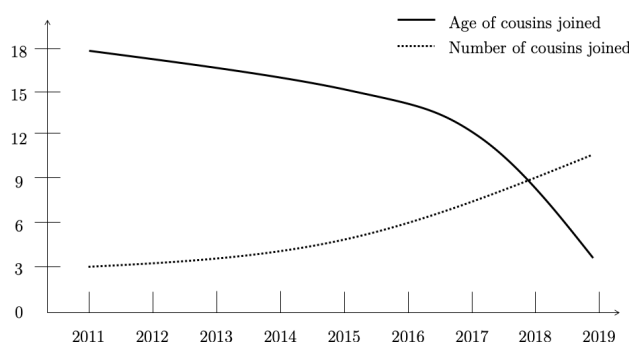


Figure 12: History of the yearly Info Day in terms of next generation attendance and age limits.

In 2016, a program designated for the 3rd generation was started. With 3 meetings per year, the idea was to have the cousins to get to know one another as well as the Family Business better. Themes for first meetings included hearing the founding entrepreneur's complete story (then in his 80s) and then those of the 2nd generation. Later these meetings took the form of workshops, with subjects such as the family's values, negotiation skills and high-growth entrepreneurship. Often the whole family was present.

Other means of planned communication have included sending the companies' press releases to each of the family members' emails. In addition, formal company visits have been organized, often jointly with the Info Day or the 3rd generations' workshops. Finally, availability of summer work and trainee periods has been

reinforced to allow the 3rd generation first-hand experience of the companies in the Family Business.

In addition, informal gatherings, such as family celebrations are included in the Family Business's communication palette, for they are seen as an important way to maintain family cohesion. Overall, the policies regarding information sharing have become more liberal within the Family Business. Attitude towards discussing the Family Business has shifted from waiting until the child asks to proactively and consistently sharing information and creating contact points with the Family Business.

Drivers for these changes can be found in developing family and business governance during the past two decades. The current owners crafted their first owner strategy in 2005. Approximately 10 years later they started working on family governance, which was finalized in 2017. In addition to agreeing on shared rules regarding the family's participation in the business, the family governance solidified formal communication practices within the business-owning family, and made a special mention about exposing the next generation to the Family Business.

Today, the 2nd generation recognizes, that communication can play a central role in achieving their goal of business continuity. Ideally, most of the 3rd generation would become interested in the Family Business and want to participate in its development within their own interests and capabilities. This participation can take the form of an operational employee, but also that of an active owner.

## 4 Birth of the stakeholder effects

This chapter presents findings to the first of the research questions concerning the next generation's relationship with the Family Business. The nature of this chapter is to give an accurate account of the interviewees' experiences in light of these two models.

Preliminary analysis of the data shows, that each of the four stakeholder effects outlined by Cornelissen (Cornelissen 2014, 51) are in fact present in the how the next generation has built its relationship with the case Family Business. Thus, analysis is divided into four chapters for awareness, understanding, involvement and commitment.

Furthermore, the next generation gives meaning to these stakeholder effects through the same three dimensions that, according to the three-circle model (Tagiuri and Davis 1996), constitute a family business. For this reason, each of the four chapters are divided into three subchapters for family, business and ownership.

The aim of these choices is to present how interviewees make sense of the four stakeholder effects, and how the dimensions of family, business and ownership manifest within.

### 4.1 Awareness of the Family Business

The first stakeholder effect, awareness, was born over a long period of time. Notably, full awareness of the Family Business was only born once the next generation became aware of all the subsystems it consists of: business, family and ownership. This is illustrated in Figure 13 on the following page.

Ownership was usually the last dimension for interviewees to become aware of, thus completing the system. Before this happened, the different dimensions remained separate from one another, also keeping the next generation further away from the Family Business.

On the other hand, once the next generation became aware of the ownership dimension, they started to develop a closer relationship with the Family Business.

The birth of these three dimensions is described in more detail in the following chapters, starting with business in 4.1.1, continuing with family in 4.1.2, and finishing with ownership in 4.1.3.

#### 4.1.1 Awareness of the business

Within awareness of the Family Business, awareness of the business was the first to develop. It was born mainly through a parent's work, family vacations and customer visits. All interviewees had memories of visiting the companies long before they realized that they were, in fact, a Family Business run and owned by their family.

*For a very long time C1 was just mom's workplace and nothing else, and then B1 was just a place where we always went, and B2. [R6]*

*Well I just thought that B1 was my parents' favorite place [to go on family vacation] and that it's easy to go there. [R5]*

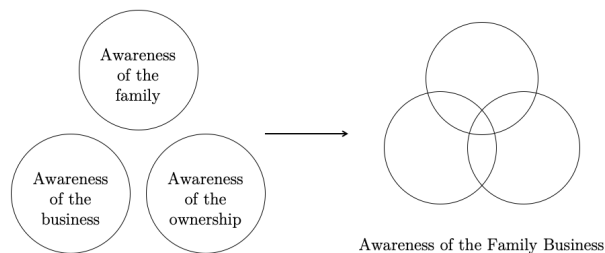


Figure 13: Awareness of the Family Business.

Spending time in the companies' premises had been essential for becoming aware of them. This was particularly easy with the travel sector companies, since they are physical locations that can be visited, and all family branches had a strong culture of spending time in them.

The healthcare sector companies were visited, too, but these visits differed in both duration and nature: whereas the travel sector companies were visited for longer periods of time in leisure, the healthcare sector companies were most often visited briefly in times of need.

For young children, the travel sector offered more possibilities to connect in a meaningful manner. Consequently, awareness of the travel sector companies (B1 and B2) developed earlier than awareness of the healthcare sector (C1, C2, C3 and C4). Despite connecting with the companies as customers, the healthcare sector remained further away.

*[Awareness of the healthcare sector] has come much later. [...] I remember we went there but I didn't realize it's all one and the same thing. [...] Maybe it was that mom always went to B1 or B2 on work trips and then we always visited B1 and B2 each Christmas. We didn't visit the healthcare companies every week, so you didn't think of them in the same way. [R12]*

However, in later childhood, awareness of the travel sector companies made it easier to make sense of the healthcare sector companies as well. Early awareness of the travel sector worked, so to say, as a bridge to understand the whole extent of the Family Business.

*It's probably been through B1 and B2 [that I've become aware], because [...] at a younger age those [healthcare] things are so distant, so it must be the skiing. [R10]*

In awareness of the business, planned communication played a small role. Usually the businesses had become familiar through informal means described above. However, this was changing, for not all businesses were possible to visit casually from a young age. Planned communication, especially company visits, opened the door to rarely

visited businesses, and sometimes lead to discussions of the family's role in the businesses.

*When I asked dad why we're going on this company tour in C1, he said that it's our family business [...]. I also didn't know about C2, I only thought there was B1 and B2. [R2]*

Most often, however, just visiting a business was not enough to spark awareness of the Family Business. Awareness of the family and ownership circles was needed, too.

#### 4.1.2 Awareness of the family

With regards to becoming aware of the Family Business, family was strongly intertwined with business. The businesses were a part of the families' life through work and vacation. Whenever the businesses were visited or talked about, it was with family, either immediate or extended, thus forging a strong link between the two.

*They've always been so strongly present in our extended family, these companies. So basically I've known about them as soon as I've known anything about anything. [R11]*

One of the businesses' direct implications on the interviewees' family life was *not* seeing one of their parents at home too much. Sometimes questions raised about the extended absences lead into learning about the family's role in the business, thus contributing to awareness of the Family Business.

*Before, when mom travelled a lot, I would ask my dad where my mom is going. [He would say] to B1. So I started asking more, is mom's work really important because she travels so much and doesn't have time to be with the family. [R5]*

Usually it was their other parent, a non-owner in the Family Business, that the interviewees turned to with these questions. By explaining why the other parent was gone so much, and why it was perhaps necessary, spouses had an important role in creating awareness of the Family Business within the next generation.

Their take on the situation also conveyed values and attitudes, affecting how the next generation felt about the Family Business.

*When I was younger it was a disappointment that I didn't really see dad, but then at an older age it changed from disappointment to maybe understanding, and now there's more of an appreciation. [R10]*

### 4.1.3 Awareness of the ownership

Gradually, awareness of the business and awareness of the family extended into awareness of the ownership, and thus awareness the Family Business. All but the youngest interviewees shared a feeling of having it hard to remember how exactly this had happened.

Usually the realization was prompted by seeing several relatives involved with the business, witnessing one's parents interact with personnel or overhearing business talk at the supper table. Most often it had included putting together bits of information over a long period of time.

Interviewees recalled realizing that their parents don't *only* work at the company, but have other stakes in it, too. At first, ownership was seen as a sort of extension to employment.

*[...] at some point you've heard that [mom and her] siblings work in these places, and then you've heard that they actually own them [...] so maybe bit by bit you've realized [...] it's taken quite a long time, there's been no particular aha moment. [R3]*

*I've always known that dad works at B1, but I don't know how I would have known that he doesn't just work there but owns it [...] Earlier I thought that dad's siblings just worked at C1. But I don't know when [the realization came], it's just come slowly [...], but nobody ever told me, it just came. [R4]*

Many interviewees also shared a memory of being told to act and talk respectfully when visiting the businesses and interacting with personnel, awakening a feeling of duty and responsibility and hinting of a special role within the businesses.

*The realization has probably started from, for example at B1, [you've been told to] remember to behave well, that we have a reputation to maintain here, and all that. [R10]*

*[Awareness was associated with] responsibility. When you realized that you can't just tear down lifts, or it will bite back at you. At that point, when you had to start thinking how your behavior affects your parents. [R12]*

Sometimes these hunches were confirmed by directly asking from a parent, or a parent took up the subject of the family business spontaneously. However, direct disclosure was quite rare and highly dependent on family branch culture.

Planned communication brought a change to this. Even though planned communication, such as the Info Day, rarely was the reason for the next generation to become aware of the ownership, it encouraged parents to disclose early. The younger interviewees recall:

*I've been told that [dad and his siblings] inherited the companies, so that's how [I've become aware]. [...] And then I knew that grandfather owns them, and when he died he transferred them to those five descendants. [R8]*



*We had those meetings, so the first time mom told me that we have this meeting, so that's how I got to know. [My parents have told me that] they're our family businesses, and really important to us. And that we need to keep good care of them when we get them as adults. [R9]*

Since awareness was born through everyday experiences, such as a parent's work, customer visits, and the family's vacations in the companies, interviewees regarded the businesses as something normal, a natural extension of their family's life. Consequently, becoming aware of the ownership was rarely a surprise or a shock, but a process with little or no negative feelings.

However, for some, feelings at this stage included a sense of uncertainty, caused by not knowing for sure what the family's role in the businesses exactly was. Usually this was the case with elder interviewees, who had gotten to know the businesses prior to heftier communication practices. An older interviewee recalls experiencing secrecy around the Family Business, when planned communication didn't yet exist:

*At some point I would say to people that grandfather had founded these companies, but I still didn't know, at least consciously, that [his children] still owned all of it. I don't remember when I would have realized it. I think it was only in the first Info Day, that I realized entirely. [...] It's become bit by bit, but not from my initiative, but so that someone else has decided to tell me, because I had no ability to make a move and ask. [R6]*

In this case awareness of the Family Business remained incomplete, because the family's role in the business was unclear. Not knowing for sure caused feelings of doubt and anxiety, and made asking further questions difficult. If the ownership dimension of awareness lacked, the whole system remained incomplete, making it harder to form a closer relationship with the Family Business.

On the other hand, learning about the ownership dimension allowed the next generation to start forging a closer relationship with the business. This is interestingly portrayed in the following quote, where another interviewee describes the impact of visiting the businesses after becoming aware of the family's role in them. Awareness of the ownership allowed her to see the business not just as a parent's workplace, but as "our family business".

*From a child you've gone to C1 a lot, and then at some point you've realized it's our family business, and then you go there again [...] You walk those stairs and notice there's another floor. [...] It feels so much bigger after that, [you realize] a lot has been done together for it. [R3]*

## 4.2 Understanding of the Family Business

The second stakeholder effect, understanding, also took a considerable amount of time to develop, and most next generation members regarded it as a work in progress. Just like with awareness, it was multifaceted in nature: understanding the Family Business meant understanding things related to business, family and ownership.

Most often understanding of the Family Business began with family and business aspects and were later complemented by ownership aspects. Once the next generation gained understanding about ownership, they were even more receptive to business aspects. Thus, understanding of all three dimensions was needed to gain profound understand of the Family Business as a whole, as is depicted in Figure 14.

How the next generation made sense of these dimensions are described in chapters 4.2.1, 4.2.2, and 4.2.3.

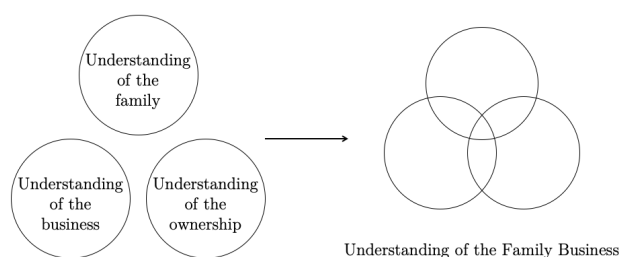


Figure 14: Understanding of the Family Business.

#### 4.2.1 Understanding of the business

If a parent's work was influential in terms of becoming aware of the Family Business, it was even more so for gaining understanding of it. Discussions with parents were the most important source of information regarding the business in the Family Business. This included, for example, being directly told something about the companies, but also indirectly overhearing conversations between the parents, or a parent and third party.

*You just visit the ski rental shop at B2 and they always talk with you and tell, or often it might be that mom or dad asks the personnel some things and then you listen tho those answers, or that you go to C1. It's no corporate secrets, but just everyday things. [R3]*

Besides being a passive party in receiving information, actively asking questions was an important contributor to deeper understanding. Whilst the majority of interviewees felt it was easy to ask questions about the Family Business, some expressed concerns related it. Most often this seemed to boil down to a fear of sounding dumb or touching upon a taboo.

Thus, lack of understanding – or what the next generation perceived as such – sometimes worked as a barrier to learning more about the businesses. Encouragement to ask all kinds of questions, even basic or silly ones, was found helpful within the next generation. Indeed, asking a good question requires a considerable amount of information.

*I haven't always dared ask things, I've felt it's dumb or weird to ask if I don't get something. [...] Somehow I've felt that it's really random to just come and ask. [R4]*

Understanding was also gained through the companies' own communication channels. All but the youngest interviewees mentioned following the companies' social media channels and visiting their websites from time to time. For example, getting the companies' press releases in one's inbox was a very valued practice by all interviewees old enough to have an email account.

If a story was picked up by a news outlet, it was likely to interest the interviewees, too. Being featured in the news signified to the interviewees that the matter was of high importance and relevance. Following news coverage from objective media outlets also had the advantage of offering fresh and new angles to the family business.

Another important medium for those old enough was work experience. Even short periods of work, like work practice programs or summer work, allowed the next generation to view the business from a new angle. These experiences provided the next generation with operational knowledge of the Family Business, which they would have been unable to get from the outside. One interviewee explains:

*[Working there] enriches your outlook. So far we [the cousins] have had a singular view of it, because we haven't worked there, and we haven't been on the spot, we don't see, we're not there often enough so that we would learn to know the places thoroughly. [R12]*

Perhaps the single most important source of information for the next generation was the yearly Info Day. For most, it was the first time they heard about business sensitive information, such as size, turnover and profits. During the Info Day, current owners would readily provide information on strategy, future outlooks and possible risks to the business – information which is hard to come by otherwise.

#### **4.2.2 Understanding of the family**

Just like with the previous stakeholder effect, understanding of family aspects seemed to deepen understanding of the business and ownership, and thus overall understanding of the Family Business. Meaningful ways of learning about the businesses were tied to shared experiences with the family. For example, family vacations in the travel sector companies' premises provided a way to explore the companies for one's own.

In addition to discussing the family businesses with their parents, interviewees deepened their understanding by observing the way in which they did their work: how long they spent at work, whether they were enthusiastic or not, and the way in which they interacted with employees. Consequently, a parent's work opened up many alternative ways for gaining understanding in the family business, including work ethics and responsibility.

Also, information from traditional or social media was most likely consumed by the interviewees, when it was brought to their attention by other family members. To the

interviewees, having a family member share a link to an interview about themselves or the business felt personal, and thus conveyed an extra sense of importance and caring. One interviewee explains:

*I don't really go and look for articles about the companies. Sometimes, especially if someone links an article, I go and look at it, and then often I end up reading some related articles. [R10]*

*Once dad went to morning TV so we watched it later, so at least that [added to my understanding]. [...] He talked about climate change and what a skiing center could do for it. And then he talked about B1 and B2, so that grew my understanding. [R2]*

This was also what made the Info Day's impact so great. The fact that the meeting was organized for the sole purpose of keeping the family informed, and information was delivered by people who the next generation were emotionally attached to, made them especially prone to receiving that information. The circumstances made understanding feel important.

### 4.2.3 Understanding of the ownership

Understanding of ownership was the aspect most influenced by planned communication, particularly the Info Day. Themes related to ownership rarely emerged in other media, making planned communication one of the next generation's few outlooks on the subject. Depending on the level of knowledge prior to attending to an Info Day for the first time, that Info Day had fairly different outcomes.

For all interviewees the Info Day, particularly the first one they attended, provided new information about the Family Business. For the younger ones, it gave more specific knowledge about the companies already understood as belonging to the family. For the older interviewees, it served as confirmation of the businesses' existence and clarification to what exactly was the family's role in them, thus affecting understanding of ownership (see chapter 4.1.3).

In addition, the Info Day provided a sense of the current owners' attitude towards the Family Business. One interviewee describes this:

*It was fun to see dad's and his siblings' passion towards [the family business] even though it was just our family there. Regardless, they were 100 percent into it. [R10]*

All interviewees saw the growth of understanding as a positive development. It allowed them to grasp the Family Business at a deeper and more versatile level, and feel closer to both the family and the businesses. Having a clearer picture about ownership seemed to increase overall understanding of the Family Business.

*So before I just knew [...] that our family runs these companies, and that was pretty much it. Now I know more what's being done here and what each of [the family employees] does, or at least better. [R11]*

### 4.3 Involvement in the Family Business

Involvement in the Family Business was understood in two distinct, but complementary ways. On the one hand, involvement was an action: getting to do something concrete for the Family Business. On the other hand, involvement was a feeling: the sense of being a part of the Family Business.

Again, dimension of family, business and ownership manifested within, as is shown in Figure 15. Together, they provided both types of involvement: action-based involvement was more commonly offered by the business side of the Family Business, whereas feeling-based involvement was more often found in the family and ownership sides of the Family Business.

Both were important for achieving an overall sense of being involved in the Family Business. Involvement in the three dimensions is further described in chapters 4.3.1, 4.3.2 and 4.3.3.

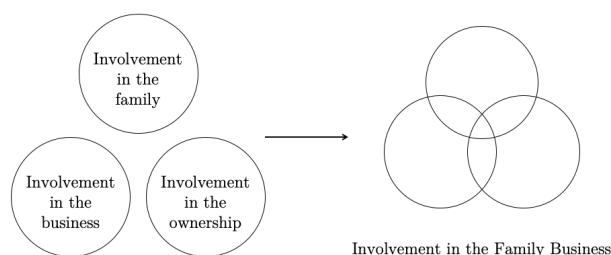


Figure 15: Involvement in the Family Business.

#### 4.3.1 Involvement in the family

Family meetings were important forms of involvement for all interviewees. They were mentioned by every interviewee, with some differences of emphasis between casual and formal meetings. Especially for the older half of the interviewees, the yearly Info Day had been an exceptionally powerful experience. For them, getting to join the Info Day had felt like a sort of ritual, for it was tied to a certain age.

*When I grew a bit older [mom told me] that we have these meetings, and asked if I wanted to join at some point. And there I got to get to know the family business a bit more, got to know about them. [R5]*

Like stated in the previous chapter, the Info Day deepened the interviewees' understanding by providing new information about the family businesses. However, based on the interviews, it had another outcome: inclusion. If *receiving* the information deepened the interviewees' understanding, *being present* at the Info Day increased their involvement.

*I've thought that's it's nice that mom's taken me to those meetings, because I also want to [...] affect these companies somehow, in some small way. [R5]*

*I feel like I am important because I am included in these things. [R4]*

The younger interviewees shared their elder cousins' sentiment of inclusion. For them, the family meetings, including the Info Day, were something that had always been, since their childhood was set in time when planned family communication became more active and age limits were slowly abandoned. Consequently, they got to hear about the Family Business at a much younger age than their elder cousins.

The younger the interviewee, the more focused they were on family aspects. For the younger interviewees, getting to spend time with the family and learning about the businesses on the side felt like being involved in the family business. They preferred action over listening, and sometimes felt overwhelmed by the amount of information shared.

Whilst young children may not have understood the purpose of the family meetings, they valued being included, especially if they got to participate in their own capacity. Sometimes, however, the amount of delivered information surpassed their capabilities to understand, especially in the case of financial information.

Even though family aspects dominated the younger children's answers due to lack of other types of involvement, togetherness was valued by interviewees of all ages. Several interviewees said to believe that the family is more close knit than normal due to the family businesses.

#### **4.3.2 Involvement in the business**

The most evident way to be involved in the business side of the Family Business was, naturally, working in one of the businesses. These experiences were brought up by all interviewees whom had had the chance of working at the Family Business for some period of time. The next generation felt good about these experiences, for they gave them the sense of actively participating in the Family Business.

*You've had the chance to do something for these companies, concretely done something. [...] You get this feeling of gratification and importance. [R10]*

The sense of involvement was heightened when the next generation felt that their input was appreciated and needed. Indeed, making working experiences readily available and actively communicating their significance to the whole Family Business system seems to be an important part of supporting next generation involvement.

However, involvement in the business didn't have to be so official in order to matter. Several interviewees brought up small acts that they had done in the favor of the businesses. One interviewee found it rewarding to help customers find their way in one of the family businesses' buildings. Another one kept her eyes open for things to improve around the family business.

*At C1, this is really specific, but there are the elevators which many people don't know how to use. So just getting to advise people. It's small [...] it's made me feel like I can and should give advice, help.*

Getting to participate, even by small deeds, made all interviewees feel important and useful. It also helped fight negative feelings of privilege. When the Family Business was something you had gotten a chance to do actively for, instead of passively hear about, it was easier for the next generation to feel good about their role in the Family Business.

Another example of a seemingly small thing that made the next generation feel involved in the business side of the Family Business was asking their opinion on current matters. The fact that the current owners found their opinion valuable and actively sought it was a positive and uplifting experience for the next generation.

*If mom talks [about the family business] she'll ask did I get it or not, what do I think of this or that, and she'll be really glad about all the questions [I ask]. [R3]*

*My dad talks a lot about stuff at B1, and what I think should be done. It makes me feel really good. That my opinion matters. [R4]*

Such feelings were also evoked when the next generation got to hear about new developments in the businesses among the very first. Getting such inside information about things about to happen made interviewees feel like part of the inner circle.

*When we were at a [week long] work practice program at B1, [my uncle] told about the neat things that would come there, which hadn't been yet published [...]. It made me feel special. Or like, trusted. [R11]*

### 4.3.3 Involvement in the ownership

Although actual ownership of the businesses was still a distant future for the next generation, the current owners made them feel involved in the ownership dimension, too. The next generation recalled hearing statements about the Family Business's desired outcome, such as "the shares are a loan from the next generation" or that "we want to pass on the businesses in better shape than we received them in".

Usually, the next generation was exposed to these statements within situations of planned communication, like the Info Day. Also, more often than before, they started reading these sorts of statements from media, where their family members were being interviewed on topics concerning family businesses and ownership.

Hearing such statements about one's possible future made the next generation feel involved in the Family Business, by representing the future of its ownership. R9's quote in chapter 4.1.3 was a good portrayal of this.

At times, the next generation was also involved in the actual planning of ownership policies. On one occasion, the family gathered to discuss about family values and their purpose for ownership. This was experienced strongly by several of the cousins first time present in such a family meeting.

*In all of these [family meetings] I've felt very included. [...] Especially the first time when I got to come to [a meeting where we talked about family values] I thought it was great that we got to be there with [my cousin]. It was important and fun. [R4]*

The elder interviewees were also aware of a possibility to do a trainee period in one of the companies' boards, and thus get a sense of what it might mean to direct the companies as an owner. Just like with regular work experience, being told about this opportunity made those next generation members it concerned feel included in the ownership dimension.

## 4.4 Commitment to the Family Business

Commitment, which is supposedly the last of the stakeholder effects, seemed to be the hardest concept for the interviewees to make sense of. One reason for this difficulty could have been the Finnish translation used for commitment, "sitoutuminen". The word communicates a level of obligation missing from its English counterpart. Indeed, many associated commitment quickly with employment, a subject still far away for the young interviewees. However, after the initial confusion and bewilderment, the questions related to commitment yielded interesting and profound thoughts.

Again, the three dimensions of family business were present in the answers, which is illustrated in Figure 16). This time, the business and ownership dimensions (chapters 4.4.2 and 4.4.3) were quite strongly intertwined, which is logical, since the latter closely influences the first in terms of what forms the family business takes. Interestingly, the family dimension (chapter 4.4.1) manifested as a fairly independent source for commitment, hinting of its important role in bringing the Family Business close to the next generation.

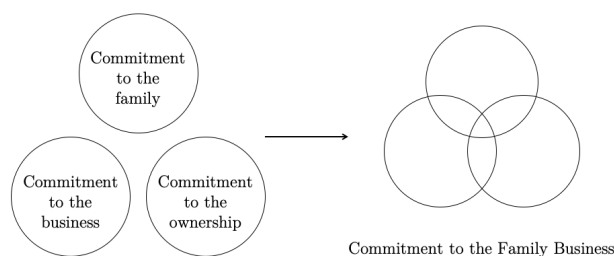


Figure 16: Commitment to the Family Business.

### 4.4.1 Commitment to the family

Interviewees started discussing themes such as how and why the companies feel close them, what it means to be part of an entrepreneurial family, and what doing good business entails for them. Even young interviewees were able to express commitment towards the family as a family member and commitment towards the companies as a loyal customer.

First, commitment was understood to mean closeness. Interviewees found it easier to feel committed to the businesses that were close to them. Closeness was supported



by hearing about the businesses from their parents or other relatives, and getting to spend time in them. As such, commitment was strongly tied with family.

Interviewees seemed to use deductive reasoning to determine their place in the family business system: since the family relates closely to the businesses, and I am a part of this family, I must relate closely to these businesses, too. Indeed, the sheer knowledge and fortified experience of belonging to the entrepreneurial family supported the next generation's commitment to the Family Business.

*For example, I don't know how to say it, but it makes me commit that I'm part of this family and everyone takes me along. [...] They are nice, they love me and all. [R9]*

*What's affected my commitment... just being a part of this family. [...] We keep up these meetings, it's [the family business] always in the back of your head, you think about it, are part of it. [R3]*

Moreover, commitment to the family was fairly independent from the other two dimensions. Interviewees realized that their relationship with the family and the family business was not dependent on committing their careers to it. This was particularly valued by those with distinct career plans outside the family business.

*I have pretty clear plans [for my career], but I also feel that I'm not being forced to be here, nobody says that you have to give everything for this. [...] but I still want to be involved. [...] [The family businesses] are so strongly present in ordinary life, so if I wasn't involved at all I'd be, not outside of the family, but an outsider, if I wasn't involved. [R11]*

#### 4.4.2 Commitment to the business

At first, many of the interviewees, especially the younger ones, quickly associated commitment with employment. To them, commitment seemed to imply a level of physical contribution yet unattainable to them, and also unreasonable to expect of them. One interviewee voiced this critique in a direct manner:

*Well, I'm a child, so I can't be committed, at least not much. [...] I can't do anything for it, it's probably not going to be my future career [...]. [R2]*

Also, the company's line of business seemed to matter. Interviewees found the businesses the Family Business was in, travel and healthcare, intriguing and easy to approach.

*I think, if we manufactured tobacco, I wouldn't be so interested in it. [Our family businesses] are so easy to approach [...]. B1 is a place, it's been easy to understand when you're small. [R4]*

*I think it matters [what field the family businesses are in], because healthcare and travel, they're both industries with which we have contact with. [...] If these were some, I don't know, energy businesses you wouldn't get to see them in the same way. [R12]*

In addition to *what* the companies do, it seemed to matter *how* they do it. Interviewees old enough to get a sense of the Family Business's way of doing business, and perhaps compare it with competition, felt that things were being done "the right way". The fact that important stakeholders, such as customers and employees, seemed to thrive in the companies, also made the interviewees feel more committed to the family businesses.

*Mom always tells that it's easy for them to employ people [...] it's a place where people want to work, the atmosphere is good, it's not just a "money making machine". [...] I think it's amazing that they've been able to create such an environment and then at the same time do business with it. To be kind of a platform [for good]. [R3]*

Several interviewees discussed the significance of the family businesses' purpose for their commitment. These interviewees found that it was not only important what the companies do and how they do it, but also *why* they do it. When the company's purpose was in line with their own personal purpose, it was easier for them to feel committed to it. Most often this implied making an impact instead of making money.

*As a family business it's possible to pursue values other than making money. [...] I think it's important because I don't see anything exciting in doing something boring [...] useless, or meaningless [...] just for the sake of getting money. [R6]*

Success was also deemed important for commitment. Seeing the companies succeed ignited a sense of pride and admiration. However, success was defined in a manifold way. To the interviewees, success was not simply running a profitable business, but being a good employer, making customers happy, and taking visible steps of development. Seeing the family businesses succeed in this way inspired the next generation to do their share for the family business.

*[It's made me commit seeing] how successful the companies are. That I'd like to continue so that they're like that in the future, too. [Success means to me that] people enjoy being at B1 and doctors get good feedback at C1. [...] employees have said things like, I've worked here so long that I remember when your mom began here. That kind of things I've heard from employees. [R5]*

*When you've visited [these companies] and seen how much has been achieved already, you feel that you want it to stay or grow or get even better from that. Somehow this feeling that you don't want to throw away what's already been made possible. [R10]*

#### 4.4.3 Commitment to the ownership

With commitment to the business and commitment to the ownership it's hard to say where one ends and where the other begins. What the interviewees discussed in terms of purpose and values could just as well be placed in this section – in a family business they are aspects often affected by and thus related to ownership.

Although the interviewees were not yet owners, and none were at the time of the interviews employed by the businesses, they nonetheless mentioned acting and feeling differently when the companies were in question. Hearing negative feedback was taken personally, and positive developments were a source for genuine joy.

Most of the interviewees mentioned having done something "extra" in the company premises, like showing customers in the right direction or noting and reporting upon things that would need fixing – things they wouldn't necessarily do in any other business.

In short, the next generation seemed to advocate for the company in their daily actions and feelings, expressing psychological ownership towards the Family Business.

*You always try to look at things in positive way, also maybe think for yourself even though you're not in a position where you could directly make a change. [...] if you come across something that is a bit off, you think about what could be done, think about the solutions. [R3]*

Finally, similar to the family dimension, where belonging to the family was enough to create commitment to the Family Business, so was the case with the ownership dimension. Knowing of the intention of one day passing on the businesses to the next generation was a source for commitment.

*Info Day. Knowing more about the companies. Maybe that I hear and understand that a family business needs successors. [...] It's not something somebody would have told, but you've understood, that mom and her generation, they have 15 of working time left, so then what? [...] In a not so distant future they'll retire and then someone will have to be in an operational role in there. [R6]*

## 5 Role of family governance

This chapter presents findings to the second research question. Whereas the previous chapter focused on describing how the next generation had built its relationship with the Family Business, this chapter focuses more on ways in which family governance played a role in that process through planned communication. A lesser amount of quotes from the interview data is presented due to extensive portrayal in the previous chapter.

In light of this study, family governance – and especially the communication practices it instituted in the family circle of the case Family Business – helped create a closer stakeholder relationship between the next generation and the Family Business. The following chapters outline five ways in which family governance played a role in bringing the next generation closer to the Family Business.

### 5.0.1 Enabled discussing ownership themes

The most important effect of planned communication was, perhaps, providing the next generation information about the Family Business' ownership. By doing this, it essentially enabled the business-owning family to discuss ownership related themes, such as values and purpose, succession, and future roles in the Family Business.

The role of planned communication in this was significant, for ownership related themes rarely came up in spontaneous communication about the Family Business. In light of the interviews, a dedicated time and space with both generations present was needed to disclose such matters.

For several members of the next generation, planned communication served as first proof of the Family Business' ownership. Afterwards, they started to view the businesses differently, which leads to believe, that planned communication contributed to a closer relationship with the Family Business. Consider the following quote:

*Maybe when you don't know so much about the companies, you don't have the possibility of wanting to know [...] either. When you've gotten to know a bit more, you've started to get interested. It's the starting point for getting in.*  
[R3]

Planned communication also affected disclosure of ownership related themes indirectly. Several next generation members recollected learning about the Family Business' ownership right before an event of planned communication. It could be, then, that planned communication encouraged the senior generation to disclose.

In any case, planned communication made the next generation become aware of the Family Business earlier. Many of the elder members of the next generation became aware of the Family Business slowly, through a process lasting many years involving putting together many pieces.

In the case Family Business, talking more openly about ownership seemed to affect the next generation in a positive manner. Discussions about ownership often revolved around themes like values, purpose and stewardship, and taught the next generation that the business is something to be proud of, not ashamed of – a much better ground to build a healthy relationship with the Family Business.

### 5.0.2 Created shared meaning of the business

As a result of increased ownership talk, planned communication increased the family members' shared understanding of the Family Business. Findings suggest that the concept of the Family Business is a social construct given and upheld by the family, and that planned communication played an important role in maintaining this understanding within the next generation.

According to the theory of social constructionism what we perceive as reality is, in fact, a shared assumption of reality (Mallon 2019). In other words, ideas, knowledge, facts or human nature do not exist as such, but are socially created by social agents, often culture or groups of people. (Mallon 2019)

In a social constructionist view, a business is a family business only with the conceptual and social recognition of those gathered (Mallon 2019). Following this, it can be argued, that a business run and owned by the family can be a family business only by shared agreement of the family.

Findings suggest that this meaning is most powerfully created and sustained in planned communication. Thanks to planned communication, the next generation can see, hear and experience the Family Business from different sides, including those of family, business and ownership. It is planned communication that brings the subsystems together – thus creating the Family Business.

The effect seems remarkable. For one, such a simple thing as using the word "our family business" to describe the phenomenon the family was involved in ignited a sense of involvement and commitment within the next generation. The term family business implies there is a history, and that there is a desired future. It defines the phenomenon not just as a "business" but as a family business with which the family is highly involved.

According to the findings, most important situations for this kind of "meaning building" were those with the whole family gathered, either physically or mentally, for it evoked feelings of continuity and togetherness. Most often these situations were those of planned communication. Indeed, it is through "their interactions with others and the environment they live in" that individuals create meaning (Mallon 2019).

Without planned communication, it seems, there is a risk of the next generation not understanding the businesses is a family business, intended to be continued across generations. This may have serious complications for succession. If this connection is not made, the family business may remain just as a business run by relatives, an understanding which doesn't encourage the same level of involvement and commitment within the next generation.

### 5.0.3 Increased spontaneous communication

The third effect that planned communication was identified to have was an impact on spontaneous communication. Planned communication seemed to increase both the quality and quantity of spontaneous communication about the Family Business taking place within the family subsystem, thus strengthening the birth of the stakeholder effects.

There seems to be several reasons for this. First of all, planned communication introduced a steady flow of information from the companies to the family. By regularly sharing information about the Family Business, the current owners enabled the entire family to discuss matters related to the Family Business. According to one interviewee, family meetings made it easier to approach relatives with questions or concerns.

*[I think the family meetings' role is to] maybe maintain casual contact. After all, it's hard to say some small thing if you haven't seen the other person in a long time. You have a general connection to everyone, that's why it's important that everybody would be there. [R3]*

This is quite natural, for it is easier to ask follow-up questions than to inquire about a completely new topic. Indeed, spontaneous communication relies on the next generation's ability to ask, which may be difficult or even frightening with little knowledge, a concern expressed by many next generation members in the interviews. By offering the initial input, planned communication encouraged the next generation to express their curiosity.

Other reasons for the increase in spontaneous communication were related, but somewhat more psychological in nature. When new developments were brought to the next generation's attention without separately asking to know about them, it made them feel appreciated and included.

These positive feelings of appreciation and inclusion inspired the next generation to be more invested in the Family Business, which in turn encouraged their parents to share more. This caused a positive feedback loop between the 2nd and the 3rd generation, and subsequently an increase in spontaneous communication related to the Family Business.

In addition, planned communication removed taboos related to the Family Business. Before planned communication, there was little talk about the Family Business between generations. For those elder members of the next generation getting to know the Family Business in this time, the silence made the Family Business like a banned subject, something not supposed to ask or know about.

Initiating conversation about the Family Business was also more difficult for the 2nd generation, for no shared policy to do so existed. Planned communication removed this psychological burden by giving both parties the permission and the vocabulary to discuss the Family Business. With planned communication taking place, the 2nd generation knew it was okay to share, and the next generation knew it was okay to ask.

#### **5.0.4 Improved equality between family branches**

Planned communication was found to improve equality of next generation members by decreasing informational differences between family branches. Planned communication set equal standards by ensuring that all next generation members are exposed to the family business to a certain degree despite their own or their parent's role in the business.

Informational inequalities are born in family businesses for several reasons. One of the most important factors is employment in the family business. Employees are subject to much more information about the business than non-employees are. It is easier for them to connect with the family business, for it is constantly present in their lives.

From the point of view of the next generation, it is the parent's employment that matters. The informational advantage gained by employment seemed to benefit also the immediate family of the employed family member. In the case Family Business this was portrayed by the next generation knowing most and being most attached to the company in which their parent worked at.

These differences were heightened by differences in culture of sharing within one's immediate family. Whilst some family branches openly discussed the Family Business around the dinner table, some were more hesitant to bring work matters home. These individual preferences affected how the next generation receives information about the Family Business within their own family.

While discussions about the Family Business within one's immediate family, like the spouse and children, should be all but discouraged, it should be acknowledged that these unofficial channels of information have the potential to set next generation members in unequal informational positions.

It is likely, that these differences only accentuate with time, when fewer family members hold operational roles in the Family Business. In light of this study, planned communication can alleviate these differences with communication that reaches all family members, despite parent's employment or family branch culture.

### **5.0.5 Promoted the family's sense of togetherness**

Finally, the findings suggested that planned communication promoted the family's sense of togetherness. As opposed to other means of acquiring information about the Family Business, such as following the companies' social media channels or asking one's parent about the businesses, planned communication was experienced together, with the whole extended family present.

With practices of planned communication adopted, the next generation members witnessed from a young age that when matters related to the Family Business are discussed, the family is present. This seemed to strengthen the link between the family and the business.

Planned communication demonstrated that the Family Business is not just the experience of one family member or one family branch, but of all the others as well. Getting to constantly hear about the shared history, present situation and plans for the future seemed to increase the next generation's sense of being on a shared path.

Maintaining the family's cohesion is important, for findings regarding the birth of the stakeholder effects show that family itself can be an important source of commitment within the next generation. Being included in planned communication made the next generation feel like they matter, and commit further to the Family Business.

## 6 Discussion

This chapter discusses the findings presented in the two previous chapters. Findings are contrasted with previous research, and their significance assessed in terms of the research problem of bringing the next generation close to the Family Business.

For clarity's sake, this chapter is divided into two subchapters for each of the research questions. Chapter 6.1 discusses the findings to the first research question regarding the birth of the stakeholder effects, and chapter 6.2 discusses the role of family governance and planned communication in that process.

### 6.1 Birth of the stakeholder effects

Findings of this study suggest that awareness was the first stakeholder effect to be born in the relationship between the next generation and the Family Business – just like the stakeholder communication model proposes (Cornelissen 2014, 48). Without knowing that the business exists and is indeed run by the family, it seems hard, if not impossible, to develop a relationship with it. Awareness opens, so to say, the way for the other stakeholder effects to take place.

Interestingly, full awareness of the Family Business required an understanding of the companies' ownership. Once the next generation of the case Family Business realized that they are part of an entrepreneurial family in charge of running several companies, they started forming a closer relationship with those companies. This included, for example, independently gathering information about the companies and being emotionally involved in their endeavors, which leads to believe, that awareness of the ownership dimension is a catalyst for psychological ownership.

This finding delivers interesting new information about the important role of becoming aware about the ownership dimension in a family business. If awareness of ownership is indeed needed to form a closer relationship with the family business, business-owning families should take special care in not omitting this aspect. Especially in a culture where ownership remains a sensitive subject, business-owning families may lack the will or the words to discuss such matters, unintentionally holding the next generation at a distance from the family business.

The following three stakeholder effects – understanding, involvement and commitment – are much harder to place in chronological order. Rather, they seem to take place in a continuous loop, enhancing one another. For example, gaining deeper knowledge about the Family Business seemed to encourage the next generation to be more involved with it, and vice versa.

Interestingly, in the case Family Business, commitment was not necessarily the last stakeholder effect to be born, as the stakeholder communication model suggests. To some extent, commitment did seem to be the outcome of awareness, understanding and involvement. The older the interviewee and the more interaction they had had with the Family Business, the more commitment they also expressed.

However, also younger interviewees, who despite not having had a substantial amount of interaction with the Family Business, expressed significant amounts of commitment to it. This commitment was manifested most clearly through family



relations. In a family business, it seems, the sheer knowledge of belonging to an entrepreneurial family brings about a certain degree of commitment, a phenomenon also found in other family business studies (Egon Zehnder and The Family Business Network International 2018).

This shouldn't be interpreted, however, as a leave from work. Instead, for a family business intent on passing on ownership to the next generation, knowing this should be taken as a strong mandate to work towards family unity by putting time and effort into family governance. In light of the findings of this study, belonging to an entrepreneurial family is first and foremost a feeling, which needs to be relentlessly fortified.

Another interesting finding concerns how the next generation makes sense of the stakeholder effects. Findings suggest that the next generation gives meaning to the stakeholder effects through the same three dimensions that, according to the three-circle model (Tagiuri and Davis 1996), constitute a family business: family, ownership and business. This sheds light on the multitude of touchpoints that are needed to feel close to the Family Business.

The most important source for touchpoints to the Family Business was the next generation members' immediate families. Through their parents, the next generation was subject to knowledge and experiences related to the Family Business. This is typical for family businesses in their first stages of ownership (Gersick 1997), and seemed to be still true for the case Family Business because all next generation members had at least one parent working at the Family Business.

There is both a strength and a danger to this. On the one hand, communication within one's immediate family is a powerful source for integration, because it takes place daily and provides the next generation with much more than just factual information about the Family Business. By hearing about their parent's work and being included in discussions about the business, the next generation learned about values and attitudes related to the family and ownership aspects of the Family Business, too.

On the other hand, rich communication within immediate families bears the risk of setting family members at a disadvantage to one another. It would be likely to assume that if parents in one family branch were less engaged with the Family Business, there would be more significant differences between next generation members in how close they feel to the Family Business.

Slight differences were already now visible between the next generation members due to their parent's position in the Family Business and culture of sharing within one's immediate family. In the future such differences are only likely to become more pronounced, which sets a demand for providing other touchpoints to the Family Business than one's immediate family.

## 6.2 Role of family governance

It was maintained in the theoretical framework of this thesis (chapter 2) that family governance benefits the business-owning family in a myriad of ways. By analyzing how the next generation has built its relationship with the case Family Business

and what role planned communication has played in that process, this thesis has suggested new possible benefits of family governance within the next generation of the case Family Business.

Findings of this thesis suggested that planned communication – which is essentially a product of family governance – had five positive effects with regards to the business-owning family of the case Family Business, and the next generation in particular. It increased ownership talk, helped maintain a shared understanding of the business, encouraged spontaneous communication, improved equality between next generation members, and promoted the extended family's sense of togetherness.

The implications of these effects are potentially enormous. According to family business research, maintaining the family's knowledge and commitment towards the business is of utmost importance (Carlock and Ward 2010). The danger is, that the cousins – whom the next generation of the Family Business are to one another – only share an interest towards the company's dividends (Gersick 1997), a situation to be avoided by all means.

It has been suggested in family business research, that large business-owning families need to explore how planned and structured family activities, rather than the business, can become the new glue that holds them together (Carlock and Ward 2010). Findings of this study both support and challenge this claim.

It seems clear, that planned and structured family activities are needed when family complexity increases, and that they have been useful in the case Family Business. However, excluding business aspects from these interactions is not supported by findings of this study. Whereas family was an important source of commitment in the case Family Business, it was the business that gave meaning to their interaction.

In the case Family Business, it seemed important that the next generation be exposed to each of the circles, for without this, the stakeholder effects remained less pronounced. It seems fair to argue, that by providing the next generation with more diverse touchpoints to the Family Business, planned communication enhanced the birth and strengthening of the four stakeholder effects outlined by Cornelissen (Cornelissen 2014).

This was most clear with the awareness stage, where planned communication provided the business-owning family a time and place to discuss ownership related matters, thus contributing to the birth of psychological ownership.

Another interesting comparison between the reviewed literature and the findings of this thesis can be found within the fair process theory. According to Heyden et al, improving procedural fairness in the family business setting can increase the commitment and trust of the individuals involved with it (Heyden, Blondel, and Carlock 2005). The authors also made particular reference to the next generation, whom they found to be more attracted to a family business characterized by fairness.

Findings of this thesis suggest, that family governance increased fairness in the information sharing processes of the Family Business. Thanks to planned communication, every next generation member received the same minimum level of exposure to the Family Business despite their parent's employment or culture of sharing at home. In light of the fair process theory, this has likely affected the whole family business system in a positive way, and helped bring the next generation closer

to the Family Business.

These findings are significant, because integrating the next generation of owners early on is important for family business continuity. As was noted in the theory section, viewing the succession process as merely a transfer of shares disregards both parties of the transaction, and sets the whole family business system in danger (Hughes, Massenzio, and Whitaker 2012).

Instead, a whole host of values, attitudes and knowledge related to the family business needs to be conveyed, which takes a considerable amount of time. For example, Sharma has noted, that committed next generation members tend to be more satisfied with the succession process (Sharma, Blunden, et al. 2013). However, this commitment is unlikely to be born by itself, but is the result of deliberate action.

By intentionally developing communication practices to allow the next generation to be closer to the Family Business, the case Family Business may have paved the way for a smoother succession process that leaves all stakeholders satisfied.

In the end, much of what is discussed above has to do with managing the increasing complexity in a mature family business. When the number of family members increases, so do opinions, thoughts, and desires about the business's future. Lambrecht and Lievens have suggested that if the family tree is not pruned, this complexity has to be managed in some other way (Lambrecht and Lievens 2008).

Since every next generation of owners is essentially accountable for the increase in family complexity, integrating them to the family business system at an early age presents itself as a viable solution to the complexity problem. If planned communication can help bring the next generation closer to the Family Business, family governance may be an essential tool in managing family complexity, and achieving business continuity.

## 7 Conclusion

This chapter concludes the thesis. First, the research is summarized by giving a short account of the research aims and results in chapter 7.1, after which their implications are considered in chapter 7.2. Then, limitations of the research are discussed in chapter 7.3, and last, several recommendations for future research in the field of family business communication are provided in chapter 7.4.

### 7.1 Summary of the research

This thesis set out to examine how the next generation of the case Family Business has built its relationship with the Family Business, and what role family governance, and more specifically, the communication practices it has helped institute, has played in that process.

These research aims were placed, because succession remains one of the main concerns for family businesses (PwC 2016), and is shared by the case Family Business. In order to increase the chances of successful succession and business continuity, the current owners want to bring the next generation closer to the Family Business.

Family business literature suggests, that family ownership can be either an advantage or a disadvantage to the business (Tagiuri and Davis 1996). With time, the negative consequences of family ownership are likely emphasized due to the difficulty of managing the family's increasing complexity (Dyer 2006).

In order for the family business to continue to benefit from family ownership, the family's participation needs to be managed. If this is not done, there is a risk of losing the family's knowledge and commitment towards the business (Carlock and Ward 2010).

A key challenge for mature family businesses is awakening the next generation's interest and enthusiasm towards the family business. Without a next generation who is positively compelled to continue the business, family businesses face the odds of falling into the hands of uninterested successors or failing the succession process completely.

In both cases, loss of value to owners, employees and the surrounding society of the family business is imminent. Thus, gathering more information on the factors that account to a closer stakeholder relationship with the Family Business, and the possibilities of planned communication within the family subsystem was found worthwhile.

The relationship between the next generation and the Family Business was assessed with the help of the stakeholder communication theory (Cornelissen 2014, 51). Next generation members made sense of the stakeholder effects through the same dimensions that constitute a family business: family, business, and ownership. Touchpoints to all three dimensions of the Family Business were needed in order to build a strong relationship with it.

It was also found, that the next generation members' immediate families remained the most important source for obtaining these touchpoints to the Family Business. Through their parents, the next generation was subject to emotions, knowledge and

experiences related to the Family Business. This is typical for family businesses in their first stages of ownership, and was possible in the case Family Business since all current owners were closely involved with it.

With regards to the second research question, it was found that family governance – through practices of planned communication – increased ownership talk, helped maintain a shared understanding of the business, encouraged spontaneous communication, improved equality between next generation members, and promoted the extended family’s sense of togetherness.

By doing so, family governance seemed to enhance the birth and strengthening of each of the stakeholder effects, and thus bring the next generation closer to the Family Business. The role of planned communication was found especially important with regards to sensitive topics such as ownership, of which open and regular discussion formerly lacked in the family system of the case Family Business.

## 7.2 Practical implications

This thesis has provided further evidence that a mature family business with a complex family composition should explore and establish forms of planned communication. The growing number of stakeholders sets new demands for the inclusion, informing and education of all family members within the family business in which on-going communication can help.

In the case Family Business, establishing forms of planned communication was beneficial in terms of next generation commitment. It also helped the case Family Business position itself more strongly as a family business in the eyes of the next generation. Planned communication was largely the product of developing family governance.

In light of this study, the business is not the only relevant connector to the family business, but family and ownership aspects play a role as well. In the case Family Business, making touchpoints available to all three dimensions resulted in a stronger stakeholder relationship between the next generation and the Family Business.

This thesis underlines the need for a more holistic look in next generation integration. It should not be just about familiarizing them with the business operations, but also the family and ownership aspects behind them: What is the family’s role in the family business? What is the purpose in ownership? What are we in for in the long run?

A contribution is also made to existing research with regards to the timing of next generation integration. Many business-owning families raise the question, what is the appropriate age to tell about the family business.

In light of this study, the integration of the next generation is beneficial to begin already in childhood, for this encourages psychological ownership from a young age. Next generation integration should be thought as a slow, continuous process that takes into account the next generation’s age and ability to understand and participate in the family business.

Planned communication seemed to effectively remove the typical problem of waiting for the other party to make a move. The senior generation may be waiting

for the child to ask about the family business, but the next generation is unable to do so in fear of touching upon a taboo. It is likely, that formal communication processes clear up the air and take pressure away from both parties.

Planned communication ensures, that the family business is a natural part of the family life even in later stages of family ownership. These measures are important, because feelings towards the family business are born early. For example, the feeling of being included in the family business is harder to change in later adulthood if the family business has been closed off before.

This study contributes to existing research on family business succession by acknowledging that it should be preceded by a whole host of actions, and that it doesn't necessarily concern the passing on of operational responsibility. One of these actions is integrating the next generation from a young age, for without successors who are interested and enthusiastic to continue the family business, chances of successful succession are slight.

Carlsson has written, that owners play a crucial role in creating value for business if they are active, competent, and well-positioned, the last one meaning that they understand the extent of their rights and responsibilities (Carlsson 2001). If the emotional distance between the family and the business is vast in the first place, these conditions are less likely to be born.

Without deliberate action, the family's commitment towards the family business is left to develop at random, and chances of successful succession decrease. In light of this research, planned communication opens the door to the family business and gives everyone the possibility to contribute in their own capabilities, thus laying the groundwork for family ownership, which benefits all stakeholders.

### **7.3 Limitations of the study**

This thesis is a case study, meaning its findings and recommendations are highly contextual due to a specific type of culture, history and family composition in the case Family Business. The purpose of this thesis has been to first and foremost to understand developments taking place in the case Family Business. For these reasons, academia and other family businesses should be careful in reading the findings of this thesis as commentary about family businesses in general.

One major challenge with this study has been conceptualizing the role of communication within the family business subsystem. Little prior research exists about family businesses from the point of view of organizational communication. Moreover, applying existing theories in organizational communication to family businesses is difficult, for they don't take into account the need to manage the relationship between family members, owners and managers – an inherent feature of family businesses.

Eventually, a suitable framework for communication in the family business system was found within family governance literature. However, family governance includes a wide array of aspects and is not limited to communication. For that reason, the term "planned communication" was invented by the author of this thesis to refer to communication that takes place as the result of establishing formal structures and processes, i.e. family governance.

The lack of existing terminology with regards to family business communication created certain difficulties throughout the thesis. Although the conceptualization used in this thesis is far from perfect, adopting a communications-based view may have suggested interesting new avenues for family business research. The field is still developing in this sense, and it would be useful to conceptualize the role of communication in family businesses further.

The last limitation of this study lies with the researcher. 12 out of 13 next generation members of the case Family Business were interviewed for this study, the researcher being the 13th member. Although interviews and the analysis thereof were aimed to do with as much objectivity as possible, it is possible, perhaps even likely, that the researcher's personal values and viewpoints have affected the course of this thesis.

Although a risk to objectivity, it could be that an external researcher could not have extracted the same level of information as was now done. Being part of the same reference group, the researcher shares many of the same experiences as her siblings and cousins, making it easier to conduct an interview concerning the Family Business.

## 7.4 Suggestions for future research

The topic of family communication in a family business remains an under researched area in family business studies. Interpersonal communication has been studied somewhat, but an organizational perspective is largely missing. Although research on family governance provides some outlooks on the theme, family business studies would benefit from research with a stronger focus on organizational communication.

In the light of this research, interesting research topics within the larger theme of family governance and communication could relate to, for example, how common planned family communication is in differently sized family businesses, how its success is measured, what are its benefits to stakeholders, who are its target groups within the family business system, and who is in charge of its execution.

For example, whilst listed communications put in considerable resources to communicate with their current and potential owners in the form of investor relations, a similar, widely accepted practice seems to be lacking in family businesses. Communicating with the family in a family business is often overlooked and under budgeted even though their commitment is integral to the business's survival.

For example, communications researchers (e.g. Laskin) have dutifully researched the investor relations (IR) profession: why it's needed and how its practitioners make sense of their work. An interesting research topic for future researchers would be to map out the work of the person who takes care of similar duties in a family business, sometimes referred to as a "family manager".

Another angle could be the spouse's role. In the case Family Business, next generation members felt like they could turn to either one of their parents with questions related to the Family Business. Spouses were thought to be a part of the Family Business just as much as anybody else, and no clear differentiation was made between the owner parent and the non-owner parent.

Thus, making the spouses feel like part of the family business can therefore be of paramount importance for achieving family business continuity. Studying how the spouses make sense of their role in the family business could be an interesting direction of research.

Other intriguing topics could be found within the theme of ownership. This study found that communication about ownership was scarce in the case Family Business before practices of planned communication were adopted. However, awareness about the businesses' ownership was found critical for a deeper relationship to start to form between the next generation and the Family Business.

In a country where ownership remains a taboo, further research on this theme would be welcomed. Can a similar pattern be found in other family businesses? How does the next generation build its relationship with the family business when the business is, for example, an investment company? More profound knowledge on this theme could be beneficial to support good practices of ownership.

Also, given that all family businesses are different, a similar research as this one would be fruitful to conduct in another family business, similar to this one or differing in size, culture or generation. It seems likely that the next generation builds its relationship differently to the family business depending on the developmental stage of the family business.

Overall, further research into the topic of family communications could generate much needed information, and also promote this important practice in family businesses.



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## A Interview guide

### **Awareness**

- What has made you aware of the family business?
- What have you heard / seen / thought or felt / done or said related to becoming aware of the family business?
- What pain points / successes have there been related to becoming aware of the family business?

### **Understanding**

- What has grown your understanding of the family business?
- What have you heard / seen / thought or felt / done or said related to growing your understanding of the family business?
- What pain points / successes have there been related to growing your understanding of the family business?

### **Involvement**

- How have you been involved in the family business?
- What have you heard / seen / thought or felt / done or said related to being involved in the family business?
- What pain points / successes have there been related to being involved in the family business?

### **Commitment**

- What has affected your commitment to the family business?
- What have you heard / seen / thought or felt / done or said related to commitment to the family business?
- What pain points / successes have there been related to commitment to the family business?