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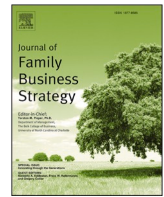

Addressing the theory-practice divide in family business research: The case of shareholder agreements

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ABSTRACT

The ultimate aim of family business research is the production of new actionable knowledge, that is rigorous, empirically verified recommendations that fit family business needs and benefit their business practice. Oftentimes, however, research efforts fall short in meeting this goal, leaving family business owners and managers with limited guidance other than anecdotal evidence, best practices, and other forms of "conventional" or "folk" wisdom. We address this theory-practice divide in family business research using the example of shareholder agreements. We present a theoretical analysis of the characteristics, antecedents and effects of shareholder agreements on family business outcomes using the concept of *family-practice fit*, suggesting that characteristics of the owning family, which are expressions of family heterogeneity, should be aligned with the practices used to manage the family, and its intersection with the business in order to facilitate goal attainment. In focusing on the family as a unit of analysis, our conceptualization follows the calls for a more nuanced understanding of the family behind the firm, providing a foundation upon which future research on shareholder agreements and other widespread family business practices can build.

1. Introduction

Establishing productive knowledge flows between research and practice has always been of primary importance to the family business field, as repeatedly affirmed by calls for *"research that matters"* (*e.g.* Sharma, Chrisman, & Gersick, 2012) and the work of numerous institutes and associations that promote links between family business theory and practice around the globe (*e.g.,* STEP project, Family Business Network, or Family Firm Institute, among others). This encourages family business scholars to develop insights that are not only theoretically sound, but also practically relevant and positively impactful on management practice (Gabriel, 2019; Tourish, 2019a), helping family business owners design practices and take actions to attain goals appropriate to them. Yet, despite much advancement over the last decades, many observers are critical as to the actual relevance and impact of existing family business studies (Astrachan, 2009; Bird, Welsch, Astrachan, & Pistrui, 2002; Xi, Kraus, Filser, & Kellermanns, 2015; Zahra & Sharma, 2004).

In the same vein, many practitioners continue to perceive academic research as distant from reality (Bennis & O'Toole, 2005; Merchant, 2012; Mohrman & Lawler, 2012; Rousseau, 2012; Wright, Paroutis, & Blettner, 2013) and as a result often rely on anecdotal evidence, taking their cues and basing their decisions on prescriptive best practices and benchmarks instead of rigorous empirical or conceptual insights (East, Romaniuk, & Lomax, 2011; Kristensen & Eskildsen, 2014; Schulman & Sargeant, 2013). But while best practices are easily accessible and directly applicable, practitioners run the risk of following universal prescriptions that may have worked well for some family firms, but can be possibly disastrous for others (Whetten, 2002; Zahra & Sharma, 2004). The gap between best practices and a more thorough understanding of cause and effect may be a rich zone for meaningful academic research, which can help explain *why* and *how* certain practices work (or do not work) in specific contexts.

Shareholder agreements, which are contracts governing the relations among shareholders, are a case in point and a fruitful context for research. While such agreements are widespread among family

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businesses and deemed an important practice[1] to manage family ownership beyond the first generation[2], they have gone virtually unstudied in family business research (the recent study by Boutron, Jaskiewicz, Barredy, and Combs (2018)) being an exception). The topic has been mentioned in a few studies addressing conflicts between minority and majority shareholders (de Holan & Sanz, 2006) or management succession (Phan, Butler, & Lee, 2005), but the important practice of shareholder agreements in family firms has not been systematically examined to date. Some valuable insights can be found in law and finance literatures, but these studies typically focus on joint ventures and venture capital-backed companies (*e.g.* Chemla, Habib, & Ljungqvist, 2007). Hence, these literatures do not consider the inherent complexity arising from the interplay between the family and the business (Aldrich & Cliff, 2003; Eddleston, Otondo, & Kellermanns, 2008), which makes family firms distinct from other organizations, and also highly different from one another (Memili & Dibrell, 2019). As a consequence, the characteristics, antecedents and effects of shareholder agreements on family business outcomes remain largely unknown.

To address this research gap, we present a conceptual analysis of shareholder agreements and their effectiveness in attaining family and business goals as a function of strategic fit with relevant dimensions of family firm heterogeneity. On the one hand, we review the practitioner literature on shareholder agreements to distill four dimensions that characterize them (Aronoff, Astrachan, & Ward, 1998). On the other hand, we focus on two prominent dimensions of family firm heterogeneity namely the family's *value and goal system* (Frank, Suess-Reyes, Fuetsch, & Kessler, 2019; Seaman, Bent, & Silva, 2019; Zellweger, Eddleston, & Kellermanns, 2010) and the *level of maturity* of the family (*e.g.* Epstein, Bishop, & Levin, 1978; Keitner & Miller, 1990; Olson, 2000). Finally, we theorize links between these dimensions building on the idea of strategic fit, a concept that has been widely explored in management research in a variety of contexts (*e.g.* Hsieh, Pandey, & Wang, 2019; Nielsen, 2010; Prajogo, 2016), and which has started to gain traction in family business research. Strategic fit is increasingly used as a way to consider the role that the family plays as a driver of performance in family firms as well as a way to incorporate considerations about the goals families pursue, their level of cohesion, their values and cultural characteristics, or their level of professionalization (*e.g.* Aronoff et al., 1998; Basco & Rodríguez, 2011; Lindow, Stubner, & Wulf, 2010). The concept of strategic fit provides a new lens to understand the likelihood of success *versus* the probability of failure associated with this highly impactful managerial practice Our proposed *family--practice-fit* framework illustrates how key sources of family heterogeneity – namely, the family's value system and level of maturity – interact with practices, and the role that fit between the two plays in attaining of the family's ultimate long-term goal: family and firm longevity.

This conceptual paper represents a first theory-based attempt at conceptualizing shareholder agreements and thus reconciling the theory-practice divide in this important context. We make three contributions to the literature: First, we elucidate the underlying dimensions of the various types of shareholder agreements available to business families and, in the process, theoretically explore the effects that such practices likely have on the business family. Second, we develop the concept of family maturity as a key source of family heterogeneity, thereby moving beyond our singular focus on firm (rather than family) heterogeneity, acknowledging the family as a key source of diversity that can be observed on the firm level. Third, building on our conceptual development and the idea of strategic fit, we develop a family-practice fit framework which illustrates the links between family firm heterogeneity and practices such as shareholder agreements and explicates how the level of fit between family and practice characteristics affect family and business outcomes. Our research extends the boundaries of family business literature by providing a first theoretical framework to systematically understand how practices such as shareholder agreements, which have been largely undertheorized and understudied to date, affect the family business system. We thus advance the field by narrowing the divide between family business research and managerial practice, showing how a concrete focus on real phenomena can open up opportunities for novel, rigorous, as well as practically applicable conceptual insights.

The paper is structured as follows. In the next section, we present the theoretical foundation upon which we base our understanding of family-practice fit. We begin with a conceptual exploration of family business shareholder agreements, followed by a discussion of two key sources of family heterogeneity: a family's value system and a family's level of 'maturity', which describes a family's level of functionality, competence and sustainability. Subsequently, in the framework and propositions section, we conceptualize our understanding of family-practice fit in the context of shareholder agreements, drawing from the literature on strategic fit. Closing, we reflect upon our conceptual exploration and propose suggestions for future research and the applied use of the presented framework and theory.

2. Theoretical foundation

2.1. Shareholder agreements in family firms

Shareholder agreements are contracts that govern the relationships among multiple shareholders in privately held and publicly traded companies, specifying details such as the circumstances under which each shareholder may sell, buy, transfer, pledge or encumber shares (Chemla et al., 2007). As a contract, they create an obligation to action (or inaction) in the future and are based on mutual acceptance of the contract parties (Rousseau & McLean Parks, 1993).

For family firms in particular, shareholder agreements can be an important means for achieving some of the family's most central goals, such as preserving the family's ultimate control of the business, securing the business in the hands of capable and committed leaders, preserving family unity, and instilling a sense of belonging among family members (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011). Indeed, shareholder agreement bind family shareholders together, often including management provisions that force family members to vote as a block and/or ownership provisions that give other family members first right of refusal when selling shares (*e.g.* Chemla et al., 2007).

Designing shareholder agreements that serve the interests of the family and the business is important for the transfer of family wealth and firm assets across generations, and is therefore critical to long-term family business continuity (Barach & Ganitsky, 1995; Miller, Steier, & Le Breton-Miller, 2003; Steier & Miller, 2010). For example, shareholder agreements are often invoked as a means to resolve agency conflicts, helping dispersed family owners band together and thereby providing clearer guidance and better monitoring of managers (Chemla et al., 2007). At the same time, shareholder agreements can help limit conflicts between majority and minority family owners (Baglioni, 2011). Evidence of such positive effects has been noted in studies in Europe and the USA (Mancinelli & Ozkan, 2006; Roosenboom & Schramade, 2006; Villalonga & Amit, 2009; Volpin, 2002), as well as in countries with weaker shareholder protections (*e.g.* Carvalhal, 2012; Silva, Lana, & Marcon, 2018). However, and despite their central importance for business family longevity, developing adequate shareholder agreements has been recognized as a major challenge for owning families (Aronoff

[1] We define practice as an all-encompassing term that includes agreements, processes, structures and other measures used to guide and manage the relationships within the family, and the intersection between the family and the business.

[2] The most common form of shareholder agreement may be the "buy-sell" agreement, obligating surviving owners to purchase shares from a recently deceased owner's estate or trust. This is a somewhat anti-family business version of a shareholder agreement, as it promotes concentration of ownership rather than distribution among many family members.

et al., 1998). At worst, shareholder agreements can trigger shareholder entrenchment (Cronqvist & Nilsson, 2003), or serve as a means to extract private benefits for family shareholders (Barontini & Bozzi, 2011) at the expense of others.

The challenge of developing shareholder agreements is primarily due to a tendency to rely on "one-size-fits-all" or best-practice solutions that end up being inadequate to deal with the unpredictable and ever-changing nature of family dynamics (Combs, Shanine, Burrows, Allen, & Pounds, 2019). Aligning all shareholders and securing their commitment to any practice is a necessary condition for any contractual agreement to be sustainable (*e.g.* Craig & Moores, 2017). However, this very process of engaging and aligning shareholders can be lengthy and chaotic, revealing fundamental and emotional conflicts and fault lines in the owning family, particularly if different shareholder coalitions pursue different goals (Kotlar & De Massis, 2013; Pieper, Klein, & Jaskiewicz, 2008; Schulze, Lubatkin, & Dino, 2003). By contrast, standard templates tend to be overly cautious and restrictive, and thus fall short in accounting for the idiosyncratic context of the particular shareholder group embedded in a family system, which is driven by unique family values and objectives (Binz Astrachan, Waldkirch, Michiels, Pieper, & Bernhard, 2020). Therefore, the very thing designed to curb and mitigate fighting often ends up exacerbating pre-existing or underlying conflicts (Binz Astrachan et al., 2020; Kaye, 1996). This lack of systematic scrutiny poses a significant limit to understanding what makes a shareholder agreement effective in relation to family and business outcomes.

In an attempt to provide a more rigorous conceptualization of shareholder agreements, we start by noting that business families differ tremendously in terms of their preferences regarding the amount the family and their policies should allow, encourage, limit or prohibit the transfer of shares among (or beyond) their family members, as well as the practicalities and level of detail of their shareholder agreements. For example, in some legal regimes, shareholder agreements may differ in terms of whether and under which circumstance they compel family owners to vote together (through "concerted action clauses"; Baglioni, 2011). Moreover, they differ in terms of the conditions they set for the purchase and sale and of shares (through selling and buying rights clauses; Chemla et al., 2007). In reality, we encounter shareholder agreements ranging from free market type solutions, where business families let their family members freely buy and sell their shares within the family (in theory – but usually not in reality – also to individuals outside the family), to hybrid solutions, where there are some criteria in place that constrain the buying and selling of shares (*e.g.,* a limited and defined number of buyers or shares), to very restrictive solutions, where share transfers are limited to extreme cases such as death or family exit (*e.g.* Neubauer & Lank, 2016; Shapiro, 1991) (see Fig. 1).

Unfortunately, while even someone with limited experience with business families could easily hypothesize why some solutions might be more adequate for certain types of family, we lack the conceptual and empirical insight to reliably predict the circumstances under which some families and businesses thrive with certain types of shareholder agreements, while others falter.

Given the lack of existing conceptual definitions of shareholder agreements, we turned our attention to the practitioner literature to develop an initial list of the main theoretical dimensions that could help characterize shareholder agreements in conceptual terms. Among others, we found the work of Aronoff et al. (1998) particularly useful for three reasons. First, the book takes stock of the experiences of a global provider of consulting and advisory for family firms, which include thousands of companies worldwide. Second, this material is interpreted, organized and presented by a distinguished group of scholars who are highly respected as pioneers and thought leaders in the field. Finally, the book focuses explicitly on "developing family business policies" and it reports a dedicated section on shareholder agreements that includes a comprehensive list of questions that should be taken into account when writing a shareholder agreement. This provided us with a comprehensive overview of the relevant sections and contents that are commonly considered when writing a shareholder agreement, in a question format that facilitated interpretation. Such questions include *"who can own shares?", "who should have decision power in the business?"*, and *"under what circumstances can a family member sell her shares, and to whom?"* We coded these questions in an effort to distill common themes, and then dimensions that could effectively characterize the anatomy and content of shareholder agreements, following general prescriptions for open coding and concept development in management and organization studies literatures (see, for example, Podsakoff, MacKenzie, & Podsakoff, 2016; Siggelkow & Rivkin, 2009). The coding procedure, summarized in Table A (see Appendix) led us to identify the following conceptual dimensions that collectively conceptualize shareholder agreements:

(1) *Liquidity*, defined as the extent to which family members' shares can be freely traded, pertains to the clauses that allow/limit the sale or pledging of stock by family members, the availability of company capital to finance buy-backs, and the valuation of shares. This dimension resonated with questions such as *"under what circumstances does the company have the right to buy stock back?"* and *"under what circumstances is it obligated to do so?"*;
(2) *Openness,* defined as the degree to which ownership transfers are allowed outside the family group. This dimension concerns the inclusion of various types of family members as shareholders (including in-laws and rules in the case of divorce), the right to sell outside the family, the line of priority for who has the right to buy offered shares (*e.g.*, first refusal rights), the right to or lack thereof of the right to buy shares if a family member who currently has no ownership (*e.g.*, if a previous generation had liquidated their stake), the ability to transfer shares in one's lifetime, and the rules around the use of entities to hold (*e.g.*, trusts or secondary corporations) and control shares (*e.g.*, voting trusts). We distilled this dimension from questions such as *"How many [family members] can own shares?"*, *"Must family members meet certain requirements to be owners?"*, and *"can in-laws and non-family employees be owners?"*;

Fig. 1. The family shareholder agreement continuum (own illustration).

(3) *Development,* defined as the extent to which the transfer of shares is conditional to certain personal development requirements, such as education, experience, age, ethics and values, can be assessed through questions such as *"must a family member be working in the business or have declared an intention to work in the business by a certain age to qualify for business ownership?"* and *"should ownership be limited to certain executives or be available to all employees, perhaps through an employee stock ownership plan?"*;

(4) *Flexibility*, defined as the extent to which the rules and processes related to ownership transfers are modifiable based on the circumstances. This dimension relates to the formalization of the shareholder agreement, the degree of and formalization of negotiation processes, and other formal requirements such as the approval of the Board of Directors or other governance entity for share transfers, purchases and or pledges. Exemplary questions include *"if an owner becomes permanently disabled, can the others purchase his shares or may he continue to be an owner even though he can no longer work in the business?"* or *"if an owner wants to sell, what percentage of his shares must he sell?"* and *"what if the business can't afford to redeem the shares of an owner who wants to liquidate?"*

These four dimensions commonly addressed in family shareholder agreements – liquidity, openness, development, and flexibility – and the variety of choices within each dimension illustrate the variety of options families can choose from when designing their shareholder agreements. The ultimate success of any practice such as a shareholder agreement depends on how well the choices the family makes align with the family's most central characteristics, values and goals. Only if the shareholder agreement fits with the idiosyncratic context of the family will it support the family in attaining the goals that they pursue for both family and business. Here, research on family firm heterogeneity provides a valuable perspective to deepen our understanding of the way the nature of the family and the nature of practices interact.

2.2. Disentangling family business heterogeneity: a family perspective

The field of family business research has long acknowledged that family firms are a heterogeneous group of organizations and highlighted the importance of recognizing heterogeneity in designing our studies and interpreting our results (*e.g.* Chua, Chrisman, Steier, & Rau, 2012; Dibrell & Memili, 2019; Nordqvist, Sharma, & Chirico, 2014; Payne, 2020; Rau, Schneider-Siebke, & Günther, 2019). This recognition, however, is often limited to the firm level, as evidenced by the differentiation between characteristics such as firm size and performance ratios, governance structures or ownership percentages (*e.g.* Daspit, Chrisman, Sharma, Pearson, & Mahto, 2018; Prigge & Thiele, 2019; Su, Holt, & Pollack, 2019). And while Memili and Dibrell's (2019) recent compilation of articles on various facets of family firm heterogeneity certainly furthered our understanding of family firm diversity, the overwhelming majority of articles featured in their book had focused on the firm, rather than the family; Frank et al. (2019) being a notable exception.

This omission evidences the common oversight that certain expressions of heterogeneity which we observe on the firm level (*e.g.,* governance structures) could be a consequence of heterogeneity stemming from the family (*e.g.,* family dynamics, values and goals, family cohesion) (*e.g.* De Massis & Foss, 2018). The lack of systematic consideration of sources of heterogeneity on the family level might cause us to surmise (and, thus, conceptualize and measure) that firm structures and behaviors are antecedents of heterogeneity, when in reality, they may be consequences. If we consider the possibility that the heterogeneity we observe on the firm level at least in part emanates from the family – for example, the family's values and goals, or family dynamics owing from past family experience – we open the door to a much wider array of explanations regarding business and family heterogeneity and their effects on family and business.

Recently, there have been promising pushes to – rather than observing mere expressions of heterogeneity on the firm level – investigate antecedents and consequences of heterogeneity on the family level (*e.g.* Combs, Shanine, Burrows, Allen, & Pounds, 2020; Rau et al., 2019) which have led to the identification of dimensions of heterogeneity that are useful to characterize the diversity of the family. For the purpose of our research, we focus our attention on two dimensions that appear particularly relevant in relation to the shareholder agreement practice: (1) the family's values and goals, and (2) their level of maturity.

2.3. Family values and goals: the foundation of the long-lived business family

Arguably two of the most important forces driving family firms are their values and long-term goals, both of which stem from the owning family. The family's value and goal system is an integral part of the foundation of any business family with a transgenerational vision, and a guidepost for the whole operation of the business and the family which additionally provide clear signals to non-family stakeholders about the nature of the family firm (Hauswald, Hack, Kellermanns, & Patzelt, 2016).

Value foundations that are shared across generations and family branches are developed through frequent family interactions and the proliferation of common stories (*i.e.,* storytelling), symbols and rituals (Hamilton, Cruz, & Jack, 2017). While prior research assumed a relatively homogeneous set of values for all family firms (*e.g.*Koiranen, 2002), more recent research alludes to the fact that values are often highly idiosyncratic (Sorenson, 2014) – the family's beliefs about how family members should interact, and how business should be conducted are based on their core values, which are firmly rooted within the family's past (Fletcher, Melin, & Gimeno, 2012). In organizations with strong, normative cultures in particular, central values (*e.g.,* quality orientation, customer commitment, or integrity) are embodied in everyday practices and organizational structures, thereby shaping the identity and the culture of the firm (Rau et al., 2019; Sathe, 1985).

A unified value system provides family firms with an advantage and creates alignment among goals and, ultimately, among family members (Long & Mathews, 2011). If the family's financial (*e.g.,* dividends, employment) and non-financial goals (*e.g.,* protecting the firm's reputation, providing for employees) are poorly aligned with their value foundation, such inconsistencies will likely result in conflict over time. A unified value framework allows the family firm to develop unique goals that stem from individual actors, the family as a group, and the firm as an organization (Kotlar & De Massis, 2013), achieving internal consistency. Contrary to firms without family involvement, family firms' goals tend to be financial as well as non-financial in nature. Non-financial goals can range from family-oriented, such as fostering family cohesion or protecting the status of the family (Deephouse & Jaskiewicz, 2013), to business-oriented non-financial goals, such as maintaining good relations to external stakeholders and providing for employees (Gómez-Mejía, Cruz, Berrone, & De Castro, 2011). Financially oriented return goals may regard the family as well as the business domain, ranging from private planes to educational funds made available to family members, to dividend payments or other financial benefits for family shareholders or employees.

Especially in times of change, family firms show a high diversity of organizational goals, which may be at odds with each other (Kotlar & De Massis, 2013). A strong, unified value system helps in aligning financial and non-financial, family and business-oriented goals and ultimately fosters cohesion among family members (Long & Mathews, 2011). Research consistently shows that families who develop and nurture a clear and unified value base benefit from increased cohesion and a stronger sense of purpose (Collins & Porras, 1996; Hall & Nordqvist, 2008). Expatiating their values and goals also allows family firms to

transform more easily over time, and to reconcile goals with the current business environment (Salvato, Chirico, & Sharma, 2010). While most family firms have multiple goals at the same time, many family firms follow a superordinate goal that unifies and excites the owning family and firm members over time. A superordinate goal (Sherif, 1958) strengthens identification and commitment to the family and the business, and it is also reflected in the family's values, which become visible in every interaction with employees, suppliers, and clients.

2.4. *Family maturity as a key driver of family heterogeneity*

What differentiates family from non-family firms is the presence and influence of the owning family, which can be a source of competitive advantage for the business, yet which can also lead to its demise (*e.g.* Astrachan, 2010; Eddleston & Kellermanns, 2007; Habbershon & Williams, 1999; Kotlar & De Massis, 2013). Given the tremendous influence we attribute to the family, it is striking that we know so little about what differentiates an owning family that fosters business longevity and success, from one that harms the business (Combs et al., 2020; Epstein et al., 1978; Harvey & Evans, 1994; Keitner & Miller, 1990; Levinson, 1971; Olson, 2000), particularly so in the light of the abundance of research on functional families in the family systems and therapy literatures (Epstein et al., 1978; Keitner & Miller, 1990; Olson, 2000).

Building on the idea of family functionality as a characteristic of heterogeneity on the family level, we propose the concept of *Business Family Maturity*. Business family maturity assumes that in order to survive and thrive in the long run, any business family needs to be (1) *Functional* in the sense that it remains a cohesive and effective decision-making body and capable of pursuing its objectives even under pressure; (2) *Competent* in the sense that family members can successfully perform their role(s) in the family and/or business, and (3) *Sustainable* in the sense that the family introduces sensible structures and processes to govern the growing ownership group, and manages to instill a sense of responsible stewardship among its members (Binz Astrachan et al., 2020, p. 9). Subsequently, we briefly discuss these constitutive dimensions of family maturity.

Family functionality refers to the ability to enable "emotional and physical growth and maturation of all members" (Smilkstein, 1978, p. 1232). It is expressed through high levels of commitment, trust, support and responsibility for each other, and manifests in the family's ability to adapt and collaborate, to nurture relationships and to resolve differences (Filser, De Massis, Gast, Kraus, & Niemand, 2018; Kellermanns, Eddleston, & Zellweger, 2012). The psychological and sociological literatures identify a range of characteristics associated with family functionality, such as adaptability, partnership, growth, affection, and resolve (Smilkstein, Ashworth, & Montano, 1982), cohesion and adaptability (Olson, 1986), a positive family identity and positive individual outcomes (Stinnett, 1979), or communication and conflict management skills, mutual support and commitment, and shared values (Krysan, Moore, & Zill, 1990). Synthesizing these findings, and translating them to the context of business ownership, a business family's level of functionality seems to manifest itself through the ability to (1) remain *unified, aligned* and *committed* (characteristics commonly viewed as expressions of family cohesion), (2) *communicate* and *resolve conflict* effectively, and (3) *foster resilience* and *adaptability* in the face of change (Danes, 2014; Philbrick & Fitzgerald, 2007).

While family functionality maybe a necessary condition for family maturity, it is certainly not a sufficient one. *Ownership Competence* refers to the knowledge, skills, abilities and capabilities of current and future family business shareholders necessary to enable them to successfully enact their ownership role(s) in the business as well as the family, and to contribute to the success of the firm and the functionality of the family (Binz Astrachan et al., 2020; Vöpel, Rüsen, Calabrò, & Müller, 2013). Recent research suggests four areas of competences that business families with a long-term vision should consider developing. *Business competence* (*e.g.,* financial, strategic, industry-related knowledge) enables owners to guide and hold management accountable and make sound, data-based decisions. *Family competence* (*e.g.,* understanding of family dynamics) enables owners to contribute to family functionality and efficacy. *Self-competence* (*e.g.,* self-regulation, developmental orientation) fosters personal development and growth. *Contextual and Zeitgeist competence* (*e.g.,* safety and security, health management) pertains to the ability to manage specific challenges and advantages arising from particular family and business characteristics, as well as dealing with political, regulatory and other developments. The ability of a family business to survive depends on shareholder's ability to make well-informed decisions that benefit and are aligned with the goals of the business and the family. Ownership competence supports the owning family in their quest to retain control over a prospering business, while remaining a unified and actionable decision-making body (see also Brundin, Samuelsson, & Melin, 2014; Kenyon-Rouvinez & Ward, 2005).

Lastly, mature business families are *Sustainable*. On the one hand, sustainable business families manage to instill a sense of responsible stewardship in current and future generations of business owners and family decision-makers. Assuming that business families generally want to stay in business (albeit not necessarily the same one) for the long run, having a vision that excites and unites the family across generations and family branches (*i.e.* a transgenerational vision) is a key element of family longevity (Frank, Kessler, Rusch, Suess-Reyes, & Weismeier--Sammer, 2017; Kidwell, Kellermanns, & Eddleston, 2012). On the other hand, sustainable business families often adopt formal and informal governance mechanisms to manage family relations, as well as the intersection between the family and the business to support goal attainment (*i.e.* authority and task relations, structures and practices that reflect the groups values and goals) (Eckrich & McClure, 2012; Siebels & zu Knyphausen-Aufseß, 2012; Suess, 2014). Hence, a sustainable family safeguards the survival of the business across generations and installs governance measures within the family system to avoid a loss of business continuity and family commitment (Gersick & Feliu, 2014).

Based on our understanding of the nature of shareholder agreements, and the roots of business family heterogeneity – *i.e.,* the family's value and goal foundation and family maturity – we next explore the idea of family-practice fit in the context of shareholder agreements.

2.5. *Conceptual framework: family-practice fit and goal attainment in family firms*

The theory of fit traces its history to the work of Kurt Lewin (1935) and has become one of the more venerable lines of theorizing in psychology literature with the concept of 'person-environment fit' (Dawis, 1992), and in strategic management literature by the concept of 'strategic fit' (Drazin & Van de Ven, 1985; Venkatraman, 1989). The fundamental assumption behind their theory is that outcomes are a function of the interaction between individuals and their environments, or between strategy and organizational structure (Edwards, 1991; Venkatraman, 1990).

As indicated by Miles, Snow, Meyer, and Coleman, 1978, p. 557), a common cause of organizational instability is *"that management does not fully shape the organization's structure and processes to fit a chosen strategy"*. We propose that the same holds true for a lack of fit between the nature of any practice or structural solution and the nature of the business family, which might end up hurting the family's ability to attain their business and family goals (Miller et al., 2003; Pieper, 2007). Since many of the consequences attributed to fit are not simply the result of fit (or misfit) with a single aspect (Kristof-Brown, Jansen, & Colbert, 2002), the next section discusses our proposed family-practice fit framework, which offers a possible explanation for how different aspects of the family's value system, level of maturity and shareholder agreements interact.

A real-life example might help in bringing this idea to life. The

Elsener family, owners of *Victorinox,* the manufacturer of the famous Swiss army knife, makes no secret of their strong Christian roots, nor the effect their religious values have on both the business and the family. *Victorinox'*s commitment to providing employment opportunities for the people of Ibach and the canton of Schwyz is legendary in Switzerland and was evidenced by the family's refusal to cut jobs in the aftermath of 9/11, when sales collapsed by 30 %. In this particular instance, and many others, the family's Christian values serve as a foundation for decision-making. Their commitment to their employees and the community goes back to the very reason the company was founded in 1885 – Karl Elsner, a deeply religious man, wanted to prevent rural depopulation. The desire to do good, and to support the community still drives the family to this day – and they developed structural solutions that reflect this will. In 2000, the Elsener family decided unanimously to separate the business from the family, and to transfer all of their shares into two trusts. They wanted to prevent the company from being weakened through distribution of the estate in the future. The main trust (90 % of the shares) is dedicated to protecting employment, the second trust supports philanthropic activities (Gautier, 2004). The family members do not receive – nor have they ever – any dividends; those that work in the business receive regular salaries. The current CEO, Carl Elsener III, often says that *"we have been given the company to take care of it, as stewards. It is not our property"* – they are true custodians of their family business, and make sure to instill these values in the generations to come (Gautier, 2004; Huber, 2018; Victorinox, n.d.).

The framework below (Fig. 2) visualizes the relationships between the family's value system, shareholder agreements as the practice in question, and the family's level of maturity. We propose that the level of fit within each domain and across domains is essential to goal attainment and the sustainability of any given practice—ceteris paribus, the greater the within and between fit, the greater the goal attainment and practice sustainability. In other words, only if the family achieves both internal fit within each dimension (*e.g.,* in a strong family value system, values and goals are closely aligned), as well as across fit between the family's value system, the practice, and their level of maturity, will the practice hold up over time and support the family in attaining their goals.

The Family Value System refers to the family's set of central values and goals, which shape family members' behaviors and decision-making. And while the family's value systems tend to be rooted in the family's past experiences and thus highly idiosyncratic, Rau and colleagues (2019) recently developed an insightful taxonomy of family firm values, based on Schwartz's Theory of Basic Human Values, using a dataset of 170 family firms in the German machine tool industry. Their analysis of the companies' corporate communication revealed 19 distinct value categories (*e.g.,* reliability, reputation, tradition, community) from which they derived five distinct types of value configurations (*e.g.,* stewards, traditionalists). Similar to the diverse values that families prioritize, owning families often pursue a wide variety of goal configurations (*i.e.,* the combination of family financial, family non-financial, business financial, business non-financial goals a family pursues) and goal hierarchies (*i.e.,* how a family prioritizes their goals): While some families prioritize family-related non-financial goals, others are primarily driven by business-oriented financial objectives.

Family Maturity refers to the family's level of functionality (*i.e.,* unity, communication and conflict, adaptability and resilience), ownership competence (*i.e.*, business, family, self, contextual/Zeitgeist) and sustainability (*i.e.,* transparency, resilience). We observe that mature families have developed – and invest considerable resources to continuously foster– a high level of cohesion, which is characterized by effective communication and conflict resolution, high levels of trust, mutual support and appreciation. They systematically develop owners' competences with regards to their business acumen, their family and personal skills, and their ability to recognize and respond to trends and changes in their relevant environment. Lastly, mature families manage to instill a sense of responsible stewardship among current and future generations and owners and promote a shared vision that excites the family across branches and generations. While there currently is no validated scale to assess family maturity, there are measurement tools to allow for the assessment of certain facets, such as family functionality, adaptability and resilience (Distelberg, Martin, Borieux, & Oloo, 2015; Olson, 2000; Sixbey, 2005; Smilkstein et al., 1982).

Practice refers to the agreements, structures, entities, governance and adjudication bodies, decision making groups, plans and actions that families design and implement in order to manage the relationships within the family, as well as the relationships and intersection between family and business (in the context of our research, the practice we examine is Shareholder Agreements). As explained earlier, practices include a wide variety of actions, which are often subsumed under the governance umbrella, namely structural solutions such as boards of directors or family councils, processes such as conflict resolution procedures to mitigate conflicts, instruments and policies such as family

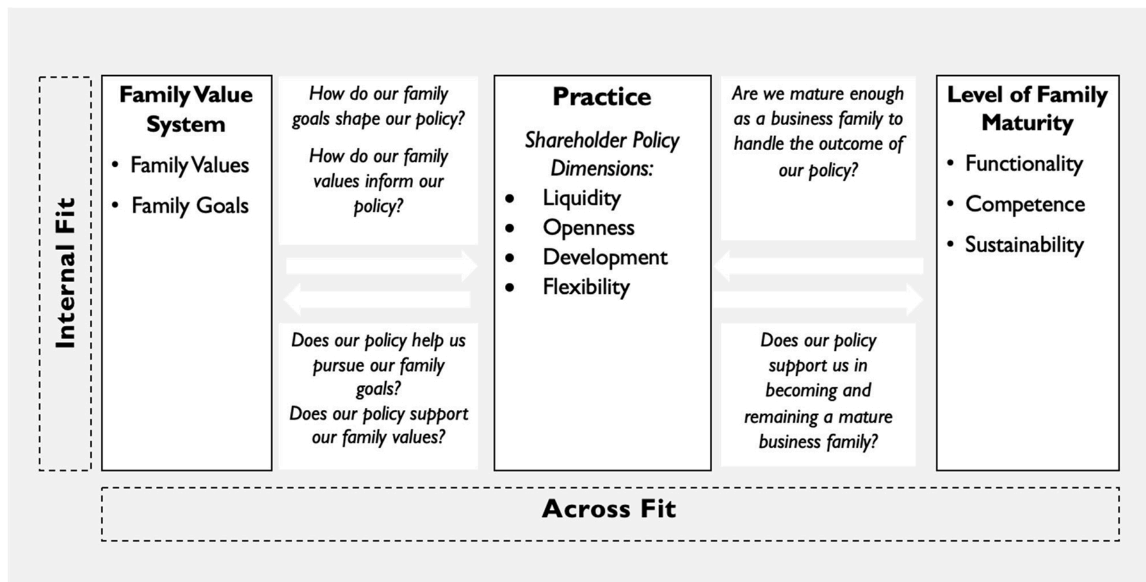

Fig. 2. Family-Practice Fit Framework.

charters and employment or dividend policies, all of which direct family members' behaviors and relationships. What makes a practice useful is not only its fit with the family's needs and wants, values and goals, but also the quality and fit of the process the family uses to develop the practice: if the family fails to engage and secure family members' buy-in in the process, they will likely feel limited emotional commitment to comply with the outcome (Binz Astrachan et al., 2020).

While *Internal Fit* pertains to the alignment within each dimension, *Across Fit* alludes to the alignment between the sources of family heterogeneity and the practice. A lack of internal family value system fit, for example, could manifest in inconsistencies between the family's goals and values. Over time, such inconsistencies will lead to conflict, and tear on the fabric of the family. A lack of internal maturity fit could mean that the family communicates and problem-solves effectively but fails to instill a sense of stewardship, or promote a transgenerational vision among owners, which, in the long run, will lead to disengagement among the family owners.

Across Fit is reached when the different dimensions complement one another, that is, when the practice is rooted in and informed by the family's goals and values, and when the practice supports the attainment of the family's goals and is aligned with the family's values. A family that promotes inclusiveness and generosity, but then implements a highly restrictive shareholder agreement sends inconsistent messages. Across fit also refers to the family's ability to handle to effects of a practice (a function of their level of maturity), and when said practice strengthens family maturity in return. This means that a less mature family – for example, one that struggles with building cohesion, or extending trust to family members – might opt to introduce more elaborate governance structures in attempting to control individual family members (Dyer & Handler, 1994; Harvey & Evans, 1994; Kidwell, Eddleston, & Kellermanns, 2017; Schulze, Lubatkin, Dino, & Buchholtz, 2001; Sorenson, 1999). A family, on the other hand, with mutually trusting relationships and strong identification with and involvement in the business (Corbetta & Salvato, 2004; Eddleston & Kellermanns, 2007; Miller & Le Breton-Miller, 2006) may grant their members great degrees of freedom in handling their ownership rights. Hence, the level of maturity determines the family's ability to use a practice to the benefit of the family and the business, and thereby, attaining the defined goals for both.

3. Agenda for research and practice

Our analysis of the academic as well as the practitioner-oriented literature has led us to presuppose the following: (1) Family heterogeneity is driven by the family's value foundation and their level of maturity, which ultimately determines how well equipped a family is to last over time. (2) The success or failure of any practice is directly related to how well that practice is aligned (or fits) with the family's value system and level of maturity. In other words, if a practice is not reflective of the family's value system (*i.e.,* lack of value system-practice fit), and not appropriate for the family's level of maturity, the practice is not sustainable. (3) Family-practice fit positively affects goal attainment on both the family and the business level.

Going forward, we explore this topic more both conceptually and empirically. Conceptually, we attempt to refine the *family practice-fit* framework, proposing new research questions aimed at advancing our understanding of shareholder agreements and developing adequate scales to measure the various concepts the framework entails. At the same time, we aim at providing practical guidance for the development of shareholder agreements in family firms.

3.1. Research agenda

Based on the Family-Practice Fit Framework and our conclusions presented above, we identify the following research questions that offer valuable opportunities for both conceptual and empirical work on shareholder agreements in future research:

Research Question 1. *What configurations of family values, goals, and maturity do better fit with the specific configurations of the family's liquidity, openness, development and flexibility choices in the context of Shareholder Agreements in a way that increases the likelihood of goal attainment?*

Research Question 2. *To what extent does the alignment between dimensions of Shareholder Agreements and a family's most central values influence the level of support from family owners?*

Research Question 3. *To what extent does the alignment between dimensions of Shareholder Agreements and a family's most central values help the family achieve its ownership related goals?*

Research Question 4. *To what extent does the alignment between dimensions of Shareholder Agreements and a family's level of maturity influence the level of support from family owners?*

Research Question 5. *To what extent does the alignment between dimensions of Shareholder Agreements and a family's level of maturity help the family achieve its ownership related goals?*

Research Question 6. *To what extent does a family's level of maturity influence its ability and success in dealing with conflicts that arise due to their shareholder agreement?*

Our conceptual considerations support the assumption that when family maturity is negatively related to structural rigidity (*i.e.,* restrictive and inflexible practices), their satisfaction with the shareholder agreement and the success of the shareholder agreement in helping the family attain their ownership goals is enhanced. We believe mature families are more likely to build in flexibility and eschew rigidity in their shareholder agreements because highly mature families do not feel the need to use rigid formal practices to limit or control family members' behaviors rather they believe in their ability to settle differences and develop effective solutions as conflicts and other problems arise. Furthermore, we surmise that highly mature families, due to their effective communication and superior problem-solving skills, are more likely to leverage the Shareholder Agreement development process to design and implement a practice in a manner that is in alignment with their family and ownership goals and helps them in achieving such goals (*e.g.,* family cohesion and sustainability). Future research could thus explore whether highly mature families are more likely to favor and be able to contend with dispersed ownership in a manner that is functional and helps the family attain its goals. We believe this to likely be the case since they are prone to experience higher levels of trust, which lowers their desire to exert control, and are better able to deal with conflict. In addition, we therefore propose the following additional research questions for future empirical research:

Research Question 7. *Does a higher level of family goal diversity enhance the effects of shareholder agreement liquidity, openness, development and flexibility have a positive effect on goal attainment?*

Research Question 8. *Does a higher level of family maturity enhance the effects of shareholder agreement liquidity, openness, development and flexibility have a positive effect on goal attainment?*

Research Question 9. *How does the interaction between the level of family goal diversity and family maturity affect the relationship between shareholder agreement liquidity, openness, development and flexibility on goal attainment?*

Research Question 10. *How do the dimensions of shareholder agreement liquidity, openness, development and flexibility influence back the level of family goal diversity and maturity?*

In sum, shareholder agreements offer a valuable opportunity to apply existing theory and evidence about differences between family and non-family firms, and to investigate drivers of heterogeneity among family firms. This allows us to expand the notion of heterogeneity beyond the firm and consider the family as a key source of the diversity that we observe on the firm level (*e.g.,* Chrisman et al., 2012; Jaskiewicz & Dyer, 2017). More broadly, our analysis suggests that observing the process of developing practices by and for the family offers valuable opportunities for family business researchers to identify and better understand different dimensions of heterogeneity on the firm level (*i.e.,* family value

system, level of family maturity). This allows for a more nuanced view of the ownership group, and one that goes beyond easily observable expressions of heterogeneity such as governance structures or levels of ownership. As an example, exploring the idea of family-practice fit using the example of shareholder agreements allowed us to deepen our understanding of the likelihood of failure or success of certain practices from an alignment point of view. This idea of alignment can be extended to other practices, including structural solutions (*e.g.,* boards of directors, family councils), processes (*e.g.,* conflict resolution procedures), instruments and policies (*e.g.,* family charters, employment policies), offering valuable insights for both theory and practice.

Therefore, while we used the context of shareholder agreements to develop and explore the family-practice fit model, we believe avenues for research utilizing this model could extend well-beyond shareholder agreements to the many other practices that are commonly found in family business. A partial list includes, boards of directors (composition, structure, authority limits, charter, *etc.*), family governance, employment policies (criteria, tracking and managing family in the company, when and how separation – including retirement – happens and how it is managed), dividend policies, debt policies, family innovation and investment policies, compensation policies, family education practices, conflict identification and management policies, family meetings (who organizes them, how often, how much structure, *etc.*), and relations with service providers like family business consultants (collaborative process, medical model prescriptive process, *etc.*).

The topics to which a Family-Practice Fit Model can be applied are many. Nonetheless, future theory development is needed to better specify the elements of fit and anchor them clearly in extant theoretical frameworks. Some of the relationships among items in the model and possible contexts that seem evident to us may not need great support, for example open and inclusive family having open and inclusive elements to their policy, a flexible and learning oriented family having a policy that is reconsidered on a regular basis and has an inclusive process for effecting change. Other relationships among items in the model might not be so apparent.

3.2. Inspirations for practice

Too often, in our opinion, in an effort to save time or to avoid delving into family conflicts, business families use generic, best practice-based shareholder agreements. These approaches are, however, often poorly aligned with the values and goals of a family, and often not reflective of their level of maturity, which, over time, likely exacerbates underlying issues and their attendant conflicts. What is more, introducing a formalized solution without leveraging the process fails to secure family members' buy-in and emotional commitment, which can reduce the efficacy of and compliance with the practice. As family business scholars, we should able to provide business families and their advisors with evidence-based recommendations, substantiating their intuition or anecdote-based assumptions as to why a certain practice might be a good fit for one family, but a bad match for another.

Adding a managerial perspective to existing finance and law literatures can help clarify how and why shareholder agreements suit family firms' values, goals, and business and family strategies (De Visscher, Mendoza, & Ward, 2011). This allows us to move beyond explaining different designs of shareholder agreements, towards better understanding their strategic consequences for the family (*e.g.*, family cohesion and harmony) and the business (*e.g.*, business continuity and survival). A better understanding of the central role that family-specific factors play in developing and successfully implementing a variety of practices supports academics in deducing rigorous recommendations for our practitioner community.

We hope that simply introducing the notion of 'fit' into the thought process of family owners and the practitioners who serve them may help in leveraging the process and designing more efficacious practices. Going forward, we hope that business families become more mindful of the importance of fit between a practice and their most central characteristics, values and goals, and the relevance of utilizing the process to develop said practice to bring the family closer together. As a consequence, we hope that families become more demanding of their consultants, pushing them to design a process that fits their most essential needs, and customizing any practice to fit their idiosyncratic context. For advisors, we hope that they actively engage with our community of scholars, which is dedicated to support them in their mission to serve their clients, so we can provide them with conceptually sound and empirically rigorous advice for their business practice.

4. Conclusion

To be sustainable, academia must be driven by the idea of impact (Lumpkin, 2011; Pettigrew & Starkey, 2016). While in some fields, like medicine or physics, impactful research leads to (often marketable) innovations such as new vaccines or technologies, other fields struggle to access audiences beyond their immediate academic communities. In management research in particular, there is little incentive for researchers to engage in (non-citable) practice-oriented research that could positively impact the community of practitioners they seek to serve (Gabriel, 2019; Tourish, 2019b). The same holds true for the family business field: despite 40 years of serious research effort, few studies have had a direct impact on family businesses, their owning families, and the advisory community. And while we, as scholars, continue to theorize and deepen our understanding of performance drivers and governance structures, we tend to omit real-life challenges that directly affect the ultimate performance measure: family firm longevity (Astrachan, 2009).

Shareholder agreements are a case in point. Given the pressing issue they present for many business owners, and especially for the many who have the intention to pass the business on to the next generation, the lack of rigorous empirical and conceptual research is both surprising and worrisome. We hope that our first attempt to reconcile theory and practice in the important domain of Shareholder Agreements will inspire others to address other decisions and practices that are fundamental to the sustainable future of family businesses.

Nonetheless, we hope that our paper motivates others to look into this issue – and other issues – of great practical importance. Both research and practice benefit from an in-depth investigation of practices such as shareholder agreements, and their effects on the family business system. For dynastic families that have a trans-generational vision in particular, establishing a share transfer system that fits their values and goals is a crucial step in ensuring long-term survival. If future research indeed confirms the idea that the success and failure of practices – *i.e.,* structures, policies and processes – are a function of fit with the family's basic values and goals, as well as their level of maturity (as evidenced by their functionality, ownership competence and sustainability), it can fundamentally change the range and type of advice given to family businesses. We hope that future research increasingly considers the possibility that the family is a central source of heterogeneity in the family business system, and that better understanding the drivers of diversity on the family level is key to deepening our understanding of the phenomena we observe on the firm level.

Appendix A. Conceptual dimensions of shareholder agreements

Table based on Aronoff et al. (2012).

Conceptual Dimensions	First-Order Codes	Exemplary Questions
Liquidity: The extent to which family members' shares can be freely traded	Right to sell/buy stock	Under what circumstances do family members have the right to sell their stock? If an owner wants to sell, how quickly must others be notified? How fast can she get her money out?
	Financing buy backs	Under what circumstances does the company have the right to buy stock back? Under what circumstances is it obligated to do so? How will buyouts be funded?
	Valuation of shares	Are shares subject to a minority discount and, if so, can they negotiate a higher price? If money will be paid out over time, what interest rate, if any, will be paid and what will the time period be?
Openness: The degree to which ownership transfers are allowed outside the family group	Which family members can/should be shareholders	Can in-laws be owners? What is the base percentage that the CEO/chairman should own? What is the base percentage that the family as a whole should own?
	Sales outside the family	Can non-family employees own stock?
	First refusal rights	When an owner wants to sell, who has the right of first refusal to buy the shares before they are sold to an outside party? Do family members have a right-or perhaps an obligation to buy out shares that are about to be distributed to an owner's spouse during divorce proceedings?
Development: The extent to which the transfer of shares is conditional to personal development requirements	Requirements to be an owner	Is ownership limited to those who have attained certain educational levels, or those who participate regularly in family council meetings? Must a family member be working in the business or have declared an intention to work in the business by a certain age to qualify for business ownership?
Flexibility: The extent to which the rules and processes related to ownership transfers are modifiable based on the circumstances	Formal criteria	If an owner wants to sell, what percentage of his shares must he sell? If an owner becomes permanently disabled, can the others purchase his shares or may he continue to be an owner even though he can no longer work in the business? If an owner holds both voting and non-voting stock and wants to redeem some of the shares, must he proportionately redeem some of the voting stock and non-voting stock?
	Negotiation process	Are her shares subject to a minority discount and, if so, can she negotiate a higher price?
	Other formal requirements	Should the terms of a buyback be subject to the board of directors' determination of the company's ability to pay?

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