



**RESPONSIBLE OWNERSHIP OF THE FAMILY BUSINESS:
STATE-OF-THE-ART**

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ABSTRACT

Very little research is available about responsible ownership and ownership, more generally, of the family business. To stimulate such research, the theme of “responsible ownership of the family business” was chosen for the 16th Family Business Network (FBN) Summit and the FBN-IFERA World Academic Research Forum. The purpose of this paper is to provide a presentation of the state-of-the-art on the topic of responsible ownership and to give an impetus for more research on the topic. Our central source of input for this paper include the 28 papers presented at the FBN-IFERA World Academic Research Forum, complemented with interviews with nine experts in the fields of family business and/or corporate governance, two recent reports on the topic by FBN affiliates—Finland and the Netherlands—and other recent articles. The paper presents various definitions of responsible ownership, building blocks for responsible ownership, and consequences of family/responsible ownership. In addition, based on an integration of the current literature and input, we propose the following definition of responsible ownership as an active and long-term commitment to the family, the business and the community, and balancing these commitments with each other. The paper concludes with directions for future research.

Key words: Responsible ownership, family business, research avenues.

INTRODUCTION

Recent scandals involving large public firms in at least three countries (including Enron in the US, Worldonline and Ahold in the Netherlands and Parmalat in Italy, to name but a few) have raised questions about who is ultimately responsible for governance of the firm (Lank, 2005). Although the finger of blame, especially in public firms, has been pointed squarely at the failure of the board of directors, such scandals have also stimulated discussion about the responsibilities of owners to assure proper governance of the firm (Lank, 2005). The rules vary by country, in the US and UK, for instance, shareholders of public firms elect the board of directors, and are therefore ultimately accountable for the board's actions. However in reality, it is often difficult for the owners to have oversight of board behavior. Ironically, also, the shareholders themselves have been hurt the most in some of the recent scandals. And where boards are not required, the owners have an even more direct responsibility for monitoring of the firm. Nevertheless, almost no attention has been paid in the research literature to date on the topic of responsible ownership, in spite of its repeated identification as an important, neglected topic in major reviews of the family business literature over the past ten years (see Brockhaus, 1994; Dyer and Sánchez, 1998; Aronoff, 1999) and/or by its absence as a topic receiving coverage in reviews covering the past sixteen years of research (see Sharma, 2004).

In particular, very little can be found in the literature on the topic of responsible ownership of the family business, especially information about the rights and duties associated with ownership. To stimulate such research, the theme of "responsible ownership" was thus chosen for the 16th Family Business Network (FBN) Summit and the FBN-IFERA World Academic Research Forum. Growing interest in the topic is also highlighted by the choice of (responsible) ownership as a central theme in recently commissioned reports by at least two regional FBN chapters, Finland and the Netherlands (Aminoff, Blom, Pärssinen et al., 2004; van Hamel, 2005). The opening sentences of the Finland-FBN report highlight the scarcity of work on the topic: "In your hands is a rare document. It may well be the first public attempt in Finland to examine responsibility and

its resulting societal dimensions—rights and duties—from the perspective of ownership” (Aminoff, Blom, Pärssinen et al., 2004, p. 2).

It is somewhat surprising that so little is understood, not only about the topic of responsible ownership, but even the more general topic of ownership. Ownership is, after all, one of the three systems identified in the three-circle model of family business, along with the business and family (Taguiri and Davis, 1982; Gersick, Davis, Hampton et al., 1997). The purpose of this paper is two-fold: 1) to provide a presentation of the state-of-the-art on the topic of responsible ownership and 2) to provide an impetus for more research on the topic.

Corporate governance vs. responsible ownership

Before exploring the meaning of responsible ownership and related research in more detail, it may be helpful to distinguish responsible ownership from the related concept of corporate governance. As used here, corporate governance is defined as the internal and external disciplining mechanisms used to influence the behavior of management of firms to be directed toward the interests of stakeholders (Maher and Andersson, 2002). Especially in public firms with a large, fragmented set of owners, the board of directors is one example of an internal disciplining mechanism. However, in both public and private firms with a substantial family-ownership interest, the owning family itself also plays a role in monitoring the actions of management. Thus assuring proper corporate governance can be seen as one of the very central tasks (though not the only task) of the responsible owner. In the privately-held firm where the family is a major (or even sole) blockholder of shares, corporate governance may even rest primarily on the ownership group. In the family-owned firm, Montemerlo (2005a) suggests that family-owners take part in key decisions affecting corporate governance at three levels:

- At the level of strategy, to establish an entrepreneurial vision. The family can be seen as an incubator of a long-term vision;
- At the financial level, to provide patient risk capital (families often accepting less dividend payouts and providing needed equity);

- At the organizational level, to choose people to play key roles, selecting growth-oriented leaders and supporting them for a long period of time (whether or not they belong to the family).

Corporate social responsibility vs. responsible ownership

Responsible ownership should not be confused with the well-established term of corporate social responsibility. Business or corporate social responsibility is defined as the contribution that for-profit businesses make to social betterment beyond providing products and services in an economic exchange (Besser, 1998). Corporate social responsibility addresses thus a corporation's responsibility to various stakeholders inside and outside the company. But the owner's role in assuring responsible corporate behavior is often forgotten in the discussion about corporate social responsibility. In "outsider" models of corporate governance, ownership is often so fragmented that individual shareholders have difficulty exercising control over the board and/or the firm's management (Maher and Andersson, 2002). But especially where ownership is concentrated in the hands of one family, as is the case in the majority of family firms, it should be possible for the owners to set up the parameters within which their business is to be run, including among others, the fields of activity to be allowed, and ethical rules to be applied (Lank, 2005). This is possible only with proper monitoring and reporting systems between ownership and firm. In sum, corporate social responsibility ultimately depends upon responsible ownership and though the former may come about on the initiative of management, the ultimate responsibility for the firm's actions, especially in the privately-owned firm, rests with the owners.

Structure of this paper

The remaining sections of the paper include methodology, definition of responsible ownership, building blocks for responsible ownership, consequences of family/responsible ownership and finally, the conclusions, including directions for future research.

METHODOLOGY

As pointed out in the introduction, responsible ownership is a new term that has only been used in a very limited manner to date. Four main sources of information provide a basis for this paper. Most central are the 28 papers presented at the FBN-IFERA World Academic research Forum on the theme of responsible ownership. These are augmented by reports on the topic of responsible ownership, prepared by the FBN affiliates in Finland and the Netherlands (Aminoff, Blom, Pärssinen et al., 2004; van Hamel, 2005), interviews with nine experts in the fields of family business and/or corporate governance, and finally, some other recent articles. Given time constraints and the large scope of the topic, we by no means claim to have completed an exhaustive search of all relevant work. However, we hope to provide in this paper a provocative piece that will stimulate further research on the topic of responsible ownership.

The Finland FBN report on responsible ownership, together with a recently prepared report on ownership strategies prepared by the Dutch affiliate of FBN, provided the starting point for this project. Ideas culled from a careful review of those materials formed the basis for a set of questions used to organize our analysis of the conference papers as well as structure the interviews carried out with selected academics (see Appendix 1 for list of questions). Resources allowed for about ten in-depth interviews, carried out by a professional journalist in business and economics.¹ An effort was made to obtain a widely diverse and knowledgeable group, both with respect to geography and research background.² Of the nine academics ultimately interviewed, six countries are represented, as well as a diversity of backgrounds in family business, entrepreneurship and corporate governance research. Two of the nine interviewees are also senior editors of academic journals. Thus, although the interview sample is quite limited, the interviews provide a rather wide range of expertise.

¹ We thank journalist Linawati Sidarto for her assistance in this project.

² The list of people contacted were generated based on suggestions from the FBN-IFERA research conference organizing committee and other contacts from the authors. Given limited resources and the short time frame for the study, it was not possible to contact all those who may have useful input on the topic, but rather, the goal was to interview about ten people in order to get varied perspectives on this new and difficult subject. We would like to thank interviewees, Joe Astrachan, Guido Corbetta, Leif Melin, Daniela Montemerlo, Randall Morck, Lloyd Steier, Annelie Stider, John Ward, and Mike Wright for their time and contribution of ideas to this paper.

DEFINITION OF RESPONSIBLE OWNERSHIP

A wide variety of characteristics of the responsible owner have been proposed as aspects of responsible ownership of the family business. For example, the responsible owner is active towards the business, is able to defend visibly the company's actions and decisions, has multiple ownership goals (e.g. transgenerational ownership, responsibility for culture and traditions, formulating and implementing the long-term strategic direction), has the ability to understand when to bring in outsiders, is able to balance the needs of the family, the business and the stakeholders, loves the industry the family business is in and is not selfish (see for instance, Montemerlo, 2005a; Melin, Brundin and Samuelsson, 2005).

When asked to define responsible ownership, the majority of interviewees in our study emphasize that the responsible owner must address the needs of and/or promises made to multiple stakeholders—the company, the family, other owners, employees, customers, and society-at-large. Five interviewees define responsible ownership as someone who takes all of these stakeholders into account. This theme of multiple stakeholders is also echoed in the definition of responsible ownership given by Melin, Brundin and Samuelsson (2005). Owner responsibility to the company includes a commitment to company continuity and development (Aminoff, Blom, Pärssinen et al., 2004) and acceptance that the company is separate from the family (Corbetta, 2005). Others emphasize the importance of the ownership to the family, including assuring preservation and growth of family wealth and assuring smooth transition of ownership to the next generation. Fitzgerald, Haynes, Schrank et al. (2005) explore the relationship of ownership and especially the responsibility of the owner to that of society-at-large. They find that more highly educated owners of older firms are more likely to make substantial contributions of time to the community, especially as civic leaders. In short, a definition of responsible ownership of a family business focuses upon the owner as actor, not just as a passive investor. If owners do not contribute directly to the generation of economic rent but, instead, simply supply financial resources that are generic, fluid, unspecialized, and easy to substitute, then the owners are replaceable (Chrisman, Chua and Sharma, 2005). In a family business, the owner is identifiable, which should nurture his responsibility (Aminoff, Blom, Pärssinen et al., 2004; Uhlaner, van Goor-Balk and Masurel, 2004). The

fact that the family name is often tied to the company's reputation may serve as one brake for unethical behavior but also as a motivator for taking on greater responsibility. An equal or greater incentive, however, may be economic. In many cases, the majority of the family's wealth is tied up within the business. In one US study, on average, 69% of the family estate is invested in the firm (quoted in Zellweger, Fueglistaller and Meister [2005]).

Coupled with the notion of the responsible owner serving multiple constituencies is the need to balance those demands (Aminoff, Blom, Pärssinen et al., 2004; Astrachan, 2005). The idea of balance, however, not only addresses balance among needs of constituencies, but also a balance between rights and duties. Thus, the Finland FBN report defines responsible ownership, in particular as “balancing the rights and privileges of ownership, such as wealth, power, joy, source of motivation and other rewards, with associated duties and risks of ownership, including the proper concern for welfare of the firm and accountability for the firm's success” (Aminoff, Blom, Pärssinen et al., 2004, p. 17).

Responsible ownership of the family business also may have varied meanings for managing and non-managing owners (Montemerlo, 2005b). For example, the responsibility of managing owners includes proper accountability to non-managing owners. On the other hand, responsible ownership by non-managing owners may include a willingness to understand company needs—patient investment of capital versus untimely withdrawal of dividends, and support for the decisions of the management (whether they are family or not).

The word “commitment” is also mentioned in various articles related to responsible ownership of the family business. Thus, for instance, Aminoff, Blom, Pärssinen et al. (2004) propose that responsible ownership is demonstrated by owner commitment to company continuity and development. Montemerlo (2005a) also uses the term “commitment”. The responsible owner is not a “simple” (i.e. passive) investor, but must also have personal commitment.

Organization commitment is a term that is well established in the organization theory literature. It is defined as, “the degree to which an employee identifies with a particular organization and its goals, and wishes to maintain membership in the organization”

(Robbins, 1998). Wagner and Hollenbeck (1995) define organization commitment as “identification with one’s employer that includes the willingness to work hard on behalf of the organization and the intention to remain with the organization for an extended period of time”. Building on this definition, owner commitment may be seen as an attitudinal component of responsible ownership, especially with respect to the firm.

Another attitudinal aspect of responsible ownership is the notion of psychological ownership. Hall (2005) defines psychological ownership as a state of mind, of feelings and attitudes, in addition to the legal objective dimension. Its core is the feeling of possessiveness and being psychologically tied to an object. Melin, Brundin and Samuelsson (2005) define psychological ownership as the perceived responsibilities and rights that are entailed with being involved in a family business. The responsibilities are expressed in emotions such as being protective, caring, nurturing, being prepared to make sacrifices and putting one’s full energy and time into the family business. The rights may be of different kinds, such as the right to possess some shares or financial value of the family business, the right to exercise influence and the right to get information about the family business. Psychological ownership gives rise to identity claims and results in certain feelings of pride, happiness, satisfaction and the like. As a natural consequence of psychological ownership and its connotation to meaning in life, identity in creation and part of one’s self, a loss of possession has a major impact on the self and might lessen it. Hall (2005) analyzes the sources of psychological ownership. These sources are the ability to use and to control the use of objects, the intimate knowledge of the target (leading to a fusion of the self with the object) and self-investment into the target—in this case, the family firm. So, the more someone invests personal values, time and energy in the firm, the more intimate knowledge of the firm, the more the firm becomes a representation of the self, the stronger the impetus for control, and the stronger the psychological ownership felt towards the firm.

The Finland FBN report on responsible ownership suggests that it is made up of different components, including financial, legal, social and mental responsibilities (Aminoff, Blom, Pärssinen et al., 2004). Financial responsibility is the owner’s responsibility to distribute profit in a way that does not negatively affect a company’s opportunity to sustain operations and so that the company can compete for the best owners. Legal

responsibility pertains to obligations according to contracts and agreements: for instance, as specified in the shareholders' agreement. Social responsibility involves respecting values and acting ethically relative to stakeholders and nature; agreeing to pay social payments and duties agreed upon by society. This includes responsibility to employees as well as society. Mental responsibility is a sense of accountability with respect to oneself or others.

In particular, the elements above lead us to the following definition of responsible ownership: an active and long-term commitment to the family, the business and the community, and balancing these commitments with each other.

BUILDING BLOCKS FOR RESPONSIBLE OWNERSHIP

Based on an international study carried out by JP Morgan Private Bank of over one hundred successful business families, Braden (2005) identifies eight practices associated with sustainable family success, many of which appear to recur in the responsible ownership literature. These practices include the following:

- Articulation of a clear and powerful vision for the family and firm;
- Cultivation of entrepreneurial strengths—instilling a sense of ambition and challenging goals;
- Planning;
- Setting up structures such as family councils, a family office, family constitution and family communications;
- Clarifying roles and responsibilities of the family;
- Communication—often and effectively;
- Helping to enhance competencies of current and future owners;
- Respecting the independence of family members, allowing them to exist when necessary, recognizing that pruning is healthy for the firm.

Several of these themes are addressed in the papers presented at the FBN-IFERA World Academic Research Forum and/or interviews conducted for this project as ways to enhance responsible ownership, including articulation of shared values, socialization of subsequent generations, acquiring competences and skills, strategic planning of the

family and of the business, informal gatherings and setting up formal governance structures.

Articulation of shared values

Strongly shared values guide the vision of the family, including why and how it wants to be an owner, and compel family managers not to hide relevant information from other family members (to avoid the agency problem of asymmetric information) (Labaki, 2005; Montemerlo, 2005a; Stider, 2005). Examples of values are respect of and deep attachment to the business, integrity, honesty, ethics, meritocracy, sense of responsibility, and openness to others' ideas. Education, formal governance structures (for example family councils), keeping the firm's history alive and an exemplary role are vehicles to transfer these values to subsequent generations (Labaki, 2005; Lambrecht and Arijs, 2005; Montemerlo, 2005a). Montemerlo (2005b) cautions: "*A common trap is that families take unity, responsibility and commitment for granted. They think it is natural for family members to get along, which alas is not always the case*".

Socialization of subsequent generations

People should be prepared for responsible ownership (Stider, 2005). This preparation and thus responsible ownership start with the upbringing of the next generations. Education is a very important aspect here. Montemerlo (2005b) points out: "*Sometimes the older generation is afraid that they influence the next generation too much. They feel their children should make their own choices. However, this is dangerous, since there is a risk that the next generation feels foreign towards the company*".

Lambrecht and Arijs (2005) make a distinction between general and financial upbringing. During the general upbringing, testators may not instill too high expectations in the young heirs and should pay attention to the versatility of the family wealth. This means that they should consider wealth as spiritual capital (family values), financial capital, human capital (skills, motives and character), family capital (family harmony), structural capital (governance structures), social capital (attention for the community) and intellectual capital (knowledge). This attention is the best guarantee for the retention of financial capital. Healthy financial upbringing entails open dialogue with the young heirs about the own family wealth, contacts with financial and legal advisers, not giving young

wealthy heirs immediately what they want, not giving more pocket money if it runs out prematurely and making do with pocket money for a longer period of time as the heirs become older.

A survey among 5,059 students from Germany and Switzerland indicates that students who grew up with a family business are more extroverted, more open, more artistically inclined, but less tolerant than students without a family business background (Halter, Frey and Zellweger, 2005). In addition, students with a family business background find spare time and the need for security not as important, but have a stronger desire for independence and creativity. Students with a family business background who want to continue the family business (successors) have a stronger will to attain independence and display a stronger value on resolution orientation than non-successors. Successors also have lower expectations on leisure time than non-successors.

Socialization is also aimed at learning about the family, the history and the activities of the business. This process should continue during and after the succession period (Lambrecht and Arijs, 2005).

Acquiring competencies and skills

A variety of competencies and skills of individual owners may enhance their abilities to act responsibly as owners. First of all, there are various types of knowledge mentioned by panel members and/or the extant literature: knowledge about the company and the family, and knowledge related to more general competencies. The former category includes knowledge of the family business, including its strengths, weaknesses, family history and family values, together with management philosophy and corporate culture. The latter category includes legal and financial competence. As Montemerlo (2005b) states: *“It is important that owners have a fundamental knowledge of business economics, such as reading numbers, balance sheets, raise equity, and the different aspects of investments”*. Not all owners have or need the same skills. However, there should be a minimum level of knowledge so that different owners can share their expertise. In addition, responsible owners need certain interpersonal skills, including ability to communicate and a good sense for achieving consensus. Owners must also

know how to appoint a proper board and have the sense to choose the right people (Montemerlo, 2005b).

Uhlaner, Thomassen and Flören (2005) find that family commitment—which is perhaps the concept most closely related to ownership commitment in their study—tends to be greater in firms where continuity and independence are explicit objectives of the firm, and where family shareholders have enough specific knowledge about the business to be able to make informed decisions.

Ward (2005) also suggests interpersonal competencies such as empathy: a sense of the needs and interests of others.

Strategic planning of the family and of the business

The two systems of a family business, family and business, should stimulate and strengthen each other permanently in a constructive way (Carlock and Ward, 2003; van Hamel, 2005). This requires proper synchronization between the planning within the family system and within the business system. Planning in the family system boils down to making the commitment of the family to the business and the way it wants to realize that commitment explicit (amongst others on the basis of the family's values). Planning in the business system aims at formulating the mission statement of the business and the way of implementing it. Family and business should then try to agree on a common vision on the future of the business and the family's involvement. It is advisable that family businesses carry out this process of parallel planning every three years.

Informal gatherings

Estimations on the basis of a survey among 86 family businesses in the Netherlands show that informal gatherings are more predictive of family harmony than are formal family governance structures (Uhlaner, Thomassen and Flören, 2005). Good family relationships are viewed as the foundation for the survival and ultimate success of the family business (Labaki, 2005). Consequently, family business shareholders must not ignore the family relationship factor and focus on the means of maintaining and promoting it in order to achieve responsible ownership. Informal gatherings can contribute to balanced family relationships and can decrease agency and transaction costs.

Setting up formal family governance structures

Agency problems can also occur in family businesses (Labaki, 2005). This is especially the case in more extended families and over time, because family bonds tend then to be weakened. Agency problems arise from asymmetric information, conflicts of interest and asymmetric altruism. As family businesses grow, information asymmetries are almost inevitable because family members who have decision power can benefit from information that is not known to the non-managing members. Conflicts of interest can be explained by the fact that family members who have decision power can take decisions and actions that favor their own interests and not that of the family as a whole. In addition, it can happen that non-active family shareholders are generally less committed to the business, have a larger emphasis on financial returns than active family members and tend to be reluctant to reinvest profits in business. This situation often leads to intense conflicts over strategic directions of the family business. The agency problem of asymmetric altruism can entail entrenchment of ineffective managers, free riding by family members, blind faith that parent-shareholders may have towards their child-manager, and distributive injustice when the least competent family member receives more support than the better performing members. In later stages of the family business lifecycle, informal gatherings can be insufficient to attenuate these agency problems. Formal governance mechanisms like family councils, family constitutions, written family mission statement, board of directors, etc., in complement of informal gatherings, are then necessary to maintain balanced family relationships (Labaki, 2005; Lambrecht and Arijs, 2005; Montemerlo, 2005b). Formal structures appear to be more predictive of family-business relations, i.e. the congruence of family and business vision than are informal gatherings (Uhlener, Thomassen and Flören, 2005). The formal as well as the informal meetings must allow or make room for criticism and discord (Morck, 2005).

Besides reducing agency problems, formal governance mechanisms are also an education vehicle (learning about the family and the business history, about the development of the business, and learning to work together as family members) (Aminoff, Blom, Pärssinen et al., 2004; Lambrecht and Arijs, 2005; van Hamel, 2005).

CONSEQUENCES OF FAMILY/RESPONSIBLE OWNERSHIP

Given the newness of the subject, little research to date specifically examines the impact of responsible ownership on other variables. However, this section will cover related research that may be relevant, as well as ideas presented in the existing literature that might be explored in future research.

Family/responsible ownership and financial performance

Several studies presented at the FBN-IFERA World Academic Research Forum support the overall conclusions by Anderson and Reeb (2003) that family-owned firms perform better. For instance, in a study that compares a sample of quoted family business as to the FTSE Index in the UK, Poutziourios (2005) tentatively concludes that family firms outperform their non-family-owned counterparts. Performance indicators include return on total assets, return on equity and return on sales (profit margin). In comparing a sample of family businesses to the FTSE, family firms also outperform with respect to stock price.

In a study of 6,141 large and medium public and private Spanish non-financial firms, Menéndez-Requejo (2005) concludes that, controlling for size and industry, Spanish family-owned firms perform better than non-family firms in terms of return on assets and return on equity. Examining firms in the Swiss stock market, Zellweger, Fueglistaller and Meister (2005) predict stock performance, rather than profitability, and conclude that family firms perform better due to more stable earnings per share, which is often interpreted in the trading world as greater “transparency” of the company. The authors suggest that this stability may be due to closer monitoring by family owners than in similar non-family owned firms, in parallel with the conclusions set forth by Menéndez-Requejo (2005). Finally, in a sample of 700 listed businesses in Germany and France, findings by Jaskiewicz (2005) support a positive influence of family ownership on firm performance, using return on assets as the dependent variable.

However, other research contradicts these conclusions, in particular two studies drawn from Spanish samples which find no effect of family ownership on firm performance. Thus, in a sample of 86 non-financial listed firms in the Spanish Market, Sacristán-Navarro and Gómez-Ansón (2005) reach the conclusion that family ownership has no

effect on firm value, as measured by market book value of common equity ratio, which contradicts research by McConaughy, Walker, Henderson et al. (1998) and Anderson and Reeb (2003) but is in line with results by Claessens, Djankov, Fan et al. (2002). In another study of 150 listed Spanish firms that are at least fifteen years old, Galve and Fumas (2005) conclude that in comparison with non-family firms, family firms grow at a slower rate, choose less capital intensive technology but are more efficient in production. However, similar to the conclusions drawn by Sacristán-Navarro and Gómez-Ansón (2005), in a rather thorough analysis, Galve and Fumas (2005) find that economic profits, financial structure and cost of capital are the same. The authors conclude that the contrast in findings from US studies may be due to differences in levels of entrepreneurial talent in the US and/or better protection of minority shareholders under US law.

What is further interesting however is the conclusion by Sacristán-Navarro and Gómez-Ansón (2005) that within the overall group of family firms, there may well be a positive founder effect, but a negative one for ownership by descendents of the founder. Thus, generation may be an important control variable to distinguish entrepreneur founder effects from those of family-descendents.

Two studies compare the impact of family ownership versus family management. Jaskiewicz (2005), for instance, finds that family management only positively affects business performance as long as it is smaller than the family ownership stake. Family board representation does not show a significant performance effect. He concludes that families are “good monitors and rather bad managers”. Along similar lines, Menéndez-Requejo (2005) concludes that, controlling for size and industry, contrary to her findings for family ownership, family involvement in management has no effect, supporting the conclusion that it is the monitoring role of ownership rather than the role of management that affects the firm’s performance.

Other consequences of family/responsible ownership

Although improved financial performance may be one possible outcome of close monitoring of the firm, responsible ownership, especially with respect to other stakeholder groups, may also lead to other consequences, such as greater corporate responsibility, better employment and overall economic growth. Responsible companies,

in turn, may also promote higher quality jobs (Aminoff, Blom, Pärssinen et al., 2004). However, none of the papers presented at the FBN-IFERA World Academic Research Forum examine these relationships empirically.

Other non-financial outcomes of responsible ownership include achieving a viable company in the long term, having a united family ownership which is renewed at the proper times, and finally, making the family business a win/win situation for the family, the company, and all the individuals involved—in short, a well-governed and successful company where people are proud to be owners and can fulfill a social commitment (Corbetta, 2005; Montemerlo, 2005b).

Research also examines possible consequences of psychological ownership, viewed here as one aspect of responsible ownership (Hall, 2005). A first consequence of psychological ownership is a behavioural one: the CEO continues to enact his role in spite of the stress he sometimes experiences. According to a poll by the International Centre for Family Business among 3,000 family businesses in 22 countries, 44% of respondents believe the family business significantly contributes to their stress levels (McCulloch, 2005). Wealth being tied up in the business (23%), relations with shareholders (16%), the ownership of the business (16%) and family involvement (13%) are indicative of how family businesses can be stressful organizations in which to work. However, responsible ownership also has advantages, like rights, wealth, power, source of motivation and joy (Aminoff, Blom, Pärssinen et al., 2004). A second consequence of psychological ownership is ensuring the possibility that children will be the future owners of the business. A third and last consequence of psychological ownership is an emotional one. Positive emotions are a sense of belonging, self-confidence and pride over the company. Negative emotions are feelings of frustration and imprisonment.

Absence of legal ownership might put limitations to the degree to which psychological ownership is felt (Hall, 2005; Melin, Brundin and Samuelsson, 2005). Consequently, it may be advisable that external directors and external managers buy shares of the family business with their own money. In this way, they become a legal owner, which fuels their psychological ownership. Hambrick and Jackson (2000) find that over a ten year period, companies in which directors hold substantially larger financial stakes tend also to report superior shareholder returns. The possible positive impact of legal on psychological

ownership also raises the question whether families in business who are no longer owners do not mortgage sustainable psychological ownership. Montemerlo, Gnan and Sharma (2005) find that so-called managing families (families involved in management but not in ownership) constitute the second largest cluster (with 9%) of small family businesses in Italy. On the other hand, responsibility can also mean that the family itself acknowledges no longer being the best possible owners for their business (Aminoff, Blom, Pärssinen et al., 2004; Corbetta, 2005). Ideally, the business has the ownership that best suits its respective situation in all of the phases of its lifecycle. Selling all or parts of the family business to outside owners should then by no means be considered disgraceful or a sign of family ownership failure. It may be the best thing to happen to the business in a given situation.

Finally, Uhlaner, Thomassen and Flören (2005) identify several non-financial consequences of ownership strategies and structures, including congruency of family/business vision, family commitment, family harmony and the openness of communications between family and firm. Although ownership commitment is not examined per se, these other variables suggest possible non-financial outcomes of ownership responsibility. In their study, none of the non-financial outcomes predict financial performance, all four of the non-financial objectives are all positively correlated with one another.

CONCLUSIONS

Directions for future research

Most papers presented at the FBN-IFERA World Academic Research Forum focusing on ownership and its consequences tend to look at ownership structure and financial performance. In this context, ownership structure may include for instance, the number of owners, presence of non-family owners, and/or the presence of family shareholders who are not involved in the daily management of the business. Recalling the definition of responsible ownership of a family business as a long-term and active commitment to the family, business and community, and balancing these commitments with each other—it is clear the attention must also be paid to the family, community, as well as to other non-financial outcomes within the firm. These other outcomes might include how well the

owner meets the needs of the various stakeholders, how satisfied each of these stakeholders (e.g. employees, the family, representatives of the community) are with the owning group's performance, and the degree of tension (or harmony) between groups (as an indicator of how well those needs are balanced). Studies might examine the determinants of ownership commitment to each of the stakeholder groups. What types of education and upbringing and family governance structures are associated with greater ownership commitment for instance? Does the ownership structure (e.g. number of owners, proportion of family to non-family owners, use of a foundation or trust to separate voting and economic rights) have an effect on ownership commitment? In turn, what might be the effect of ownership commitment on financial performance of the firm and/or satisfaction felt toward owners by other stakeholder groups?

Another gap in the research pertains to the dynamic change that takes place in ownership responsibility, including psychological ownership as well as ownership behaviors, as a result of changes in legal ownership. Thus research might examine the impact of legal changes in ownership such as going public, being delisted, a sale of part or all of the business, or even the continuation of ownership into the next generation. As ownership changes, perceived ownership responsibility may change, and in turn, the actions of those owners toward various stakeholders may alter. The consequences of such changes may in turn have impacts on the family (including family harmony and wealth), the business (including its financial performance and survival), and the community (including the impact on employment, philanthropy and the environment, to name a few).

Finally, a third research stream may examine some of the external factors that may influence responsible ownership, especially that of the government. The Finland FBN report suggests that public sector intervention in that country has over the long term weakened the operating opportunities of family-owned businesses and the possibilities of owners to continue in this capacity (Aminoff, Blom, Pärssinen et al., 2004). Thus, it may be useful to study the impact of the government on responsible ownership of the family business.

We also have some suggestions regarding methodology. One of the first challenges is that of measurement, especially if some of the relationships proposed in this paper are to be

tested empirically. Based on our definition of responsible ownership, ownership commitment is seen as a central component. In a study of family firms in the Netherlands, an index of ownership commitment to the firm has been developed that might provide an attitudinal scale for responsible ownership vis-à-vis the company (Uhlener, Flören and Gerlings, 2005). This scale might be expanded to include measures of commitment of the ownership to the other constituency groups as well, as well as identification of the behaviors thought to be associated with responsible ownership. Various methodologies can be used to explore the topic of responsible ownership, including both case studies and large sample studies using statistics. The latter is more conducive to testing the validity of different relationships. However, the former may help with generating clearer sets of propositions to be tested. Both are important for advancement of our understanding of the topic.

Final remarks

This paper attempts to provide impetus for more research on responsible ownership of the family business. Responsible ownership is a fairly new concept, only recently coined in the literature, and not yet well understood. Interest in the topic has been influenced in part by the repeated scandals in large public firms that leaves one asking: where are the owners in all of this.

Responsible ownership may not be confused with corporate governance and with corporate social responsibility. Assuring proper corporate governance can be seen as one of the very central tasks (though not the only one task) of the responsible owner. Corporate social responsibility addresses a corporation's responsibility to various stakeholders inside and outside the business. Both ultimately depend upon responsible owners.

After reviewing ideas culled from the conference papers, interviews, and other recent papers, we propose the following definition of responsible ownership: an active and long-term commitment to the family, business and community, and balancing these commitments with each other. Building blocks for responsible ownership include articulation of shared values, socialization of subsequent generations, acquiring competences and skills, strategic planning of the family and of the business, informal gatherings and setting up formal family governance structures.

Concerning the consequences of responsible ownership, the studies are not unanimous about the impact of family ownership on the financial performance of the business. Some studies conclude that it is family ownership rather than concentrated ownership per se that predicts better financial performance. Other research contradicts these conclusions, and finds no effect of family ownership on firm performance. Within the overall group of family firms, a positive founder effect but a negative one for ownership by descendants of the founder is found. Finally, there are studies that show that family involvement in management has no effect, thus supporting the conclusion that it is the monitoring role of ownership rather than the role of management that affects the firm's performance. With regard to non-financial consequences of family/responsible ownership, three consequences of psychological ownership are listed: continuation by the CEO of his role in spite of the stress, ensuring the possibility that children will be the future owners of the business, and emotional effects, such as self-confidence, imprisonment, ...

Much more research is needed to gain a better understanding of the concept of responsible ownership, but the first step is a clearer operationalization of the variable. This paper aimed at providing some insights into possible ways this research might be carried out.

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APPENDIX 1: EXPERT INTERVIEW ON RESPONSIBLE OWNERSHIP

Introduction:

(INTERVIEWER READS): Responsible ownership is a recently coined expression and was chosen as the theme for the 16th Summit of the Family Business Network to be held in September, 2005 in Brussels, Belgium. With the support of the Family Business Network, FBN-IFERA has launched a two-year research project on “responsible ownership” as a follow-up to this year’s conference theme. I have been asked to contact you to get your input on various aspects of the theme of responsible ownership. Your responses, together with that from a number of other colleagues involved with research on family business, entrepreneurship and/or corporate governance, will provide part of the input for a position paper being prepared by Lorraine Uhlener, director of the European Family Business Institute at Erasmus University Rotterdam and Johan Lambrecht, professor and director of the Research Centre for Entrepreneurship at the European University College (EHSAL Business School) in Brussels. The position paper will be presented at both the academic research conference and the FBN Summit in Brussels in September. Thank you in advance for your involvement with this effort.

(INTERVIEWER CONTINUES): The questions I will ask are aimed at getting your perspective on the topic of responsible ownership, especially in the family-owned firm. Please note further than some of the questions may seem to overlap. They are aimed at probing the topic. If you feel that you have already covered a particular topic in a previous question, feel free to note that in your answer to a following question. And of course, if there are aspects of responsible ownership that we have failed to ask about, we hope you will share those thoughts as well.

1. How would you define responsible ownership?
2. Do you see responsible ownership as a unitary concept or is it multifaceted?
3. What are the different types of responsibility?
4. What are key characteristics of responsible owners?
5. What must be done to assure responsible ownership? In other words, what are the determinants of responsible ownership?
6. What are the essential tasks of responsible owners?
7. What are the prerequisites/determinants for maintaining responsible ownership? (for instance, extent of share ownership by members of the board or management. If you have references of research on this topic, by yourself or others, that would be helpful)
8. What are the specific strategies for enhancing responsible ownership?
9. What are the characteristics of the responsible owner? (see probes also below)
 - a. What know-how and or insight should he/she possess?
 - b. What skills should he/she possess?
 - c. What types of attitudes should he/she hold?
 - d. What types of behavior(s) should he/she exhibit/demonstrate?
10. What are some of the important concomitants of responsible ownership?
11. What are the key objectives of responsible ownership? (distinguish from family ownership, more generally speaking).

12. What are the key consequences of responsible ownership?
(i.e. corporate responsibility, better financial performance, long term, etc.)
13. What theories can be applied to understand any of the above questions (either generally or specific to one or more themes) To which topic would each theory apply and how?
14. Have you carried out research relevant to responsible ownership? If so, could you describe briefly what research directions have you taken? (Interviewer note: Copies of articles or references to published works are welcomed. PDF files of unpublished articles or conference papers which are difficult to obtain would be very useful).
15. Which additional research directions would you suggest?
16. Is there anything you think is often confused but should not be seen as an aspect of responsible ownership?
17. Do you see a relationship between the concepts of responsible ownership and corporate governance and/or corporate responsibility? If so, could you elaborate? (Interviewer: If necessary, probe for definitions of the other terms being compared to responsible ownership if not clear from the explanation).
18. Is there anything else you would like to add?