

Chapter 4

The Stewardship PLC

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Abstract

A critical, and yet unanswered, question in respect of family businesses concerns the effects of being a public listed company (PLC) on the characteristics of the respective family business. Building on institutional economics and socioemotional wealth (SEW) considerations of family businesses, we theorize that listed family businesses appear as crossbreeds of concepts that are unforeseen in the literature. This research explores contradictions and incompatibilities between being a family firm and being a PLC, as well as between the logics of stewardship theory and principal-agent theory. We use primary research data from a series of multi-generational in-depth interviews with members of the owner family of a public listed family firm. Results suggest correspondence between family firms and the concept of a PLC, as well as a relatedness between stewardship theory and principal-agent theory. The model of “Stewardship PLC” is thereby determined. This matters for researchers in search of fresh premises for future investigations, and practitioners seeking, for example, cases to inspire new perspectives for the development of their business. We assume relevance for politicians because the availability of economically usable resources may be less self-evident in the future, and, so, businesses may be considered to pursue roles beyond working toward a “profit organization.”

Keywords: Family firms; public listed companies; stewardship theory; principal-agent theory; profit maximization

Listed Family Companies

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4.1. Introduction

4.1.1. Overview and Research Aims

The research presented here focuses on an apparent inconsistency of management literature in relation to management practice. Assertions have been made that the legal form of a PLC and family businesses are incompatible (see, e.g., [Davis et al., 1997](#)). The legal requirements of the German Stock Corporation Act for the structure of PLCs are also set to secure shareholder interest against self-serving managerial misconduct. It reflects a typical principal–agent situation. In family businesses, this conflict is, however, untypical, because share ownership (principal) and the pursuit of a leadership position (agent) often coincide. A further suggestion in literature is that family businesses relate to the idea of collective serving in stewardship theory (see, e.g., [Corbetta & Salvato, 2004](#); [Donaldson & Davis, 1991](#)). This, however, might make the choice of being a PLC, with its structural set-up designed for principal–agent situations, unnecessary or contradictory. Finally, this research sheds light on the discussion as to whether the characteristics of stewardship theory and principal–agent theory might combine, and derives possible implications.

4.1.2. Plan of the Chapter

The theoretical background is established at the beginning. The chapter starts with a review of systems theory and its application in the area of family businesses. A discussion of the concept of SEW illustrates the differences between family and nonfamily businesses.

The chapter continues with an examination of the concept of a PLC, its legal context, and the structural requirements together with the operating principles. The next section reviews the role of institutional economics with regard to the characteristics of principal–agent theory and stewardship theory.

The following reflections and the summary of the theoretical background of this section show apparent inconsistencies between management literature and management practice. Our considerations indicate that family firms – which are PLCs – appear to be unforeseen crossbreeds between the world of PLC and family firms. This is interesting because “family public companies” are a reality of management practice. This case study’s object – a “family public company” – is introduced along with methodological considerations related to the series of multi-generational in-depth interviews with members of the owner family of the publicly listed family firm. Eventually, the research propositions are compared with the empirical data followed by the research findings and a discussion.

The overview of the chapter and the final conclusions frame the chapter. The latter draws conclusions that refer to the research aims along with an evaluation. It outlines the contributions of the study. These interesting findings point to a useful and perhaps important area of future research.

4.2. Theoretical Background

According to [Curtis \(1989\)](#), a system is defined as a collection of dynamically inter-related parts. In line with this, [Handy \(1993\)](#) observes that in systems thinking,

everything affects everything else, everything is a part of something bigger, and nothing can stand on its own or be understood on its own. Notwithstanding the goal that a system serves, it receives input and produces output through processes within the system. In a business organization, the elements of the system are the individuals, which together form a whole, so that the collective has some purpose, and a change in any of the parts leads to, or results from, a change in some other part(s).

Bork (1986) is among the earlier contributors to the field of family firm research. The investigations use the systems concept to illustrate observations in family firms, that is, those dynamics originating from the family system. In a new edition of his earlier work, Bork (2022) concludes that “the larger concept of systems theory applied to a business and applied to a family is a very orderly construct through which to examine what goes on there and why.”

Taking a systems perspective on organizations, families, and family firms appears appropriate. Particularly in family firms, systems theory allows a profound knowledge of the idiosyncrasies and complexity (Schlippe & Frank, 2013). Family firms emerge through an intersection of a family system and business system, with each of the original systems having its own properties (Ibrahim et al., 2004; Miller et al., 2000). For Senge (1992) the individual is the smallest identifiable part to be found in organizations and families that executes self-control through attenuation or amplification of action, depending on the feedback. Public listed family firms are also human arrangements, patterns, or networks of relations. This includes the exchange relations between shareholders and the organization as living links in a sense of an ongoing and reciprocal giving and receiving.

The human element forms an essential part of organizational behavior, of families, and, therefore, family businesses. The following section reviews the systemic set-up of family businesses as well as the specific characteristics of family businesses. Hence, it will shed light on the differences between family businesses and nonfamily businesses.

4.3. The Family Business

4.3.1. Systemic Set-up

The central element of the family business is the family itself. However, despite many attempts to define the term “family” in a uniform and complete manner, the role of the family remains unclear (Zimmermann, 1995). The family can be understood as a group of individuals with blood ties and a common purpose (Wilson, 1985). This social group typically has longer-term cohesion than other groups, because an intergenerational purpose is a core characteristic (Klein & White, 1996). Leslie (1979) also sees the family as the most basic economic unit. Their social interactions and the business are linked by ownership or property, allowing for a variety of roles (Märk & Situm, 2018).

Family businesses consist of three subsystems, each with its own logic. Although their overlap creates potential for conflict, a well-balanced subsystem can be beneficial (Schlippe & Frank, 2013). The three-circle model of Tagiuri and Davis (1992)

is used as the most prominent model to explain the interplay and possible tensions between the subsystems of family, ownership, and business. This approach makes the underlying logic visible, simplifies governance complexity, and shows how individuals can swap roles. However, the assumption that only emotionality or irrationality prevails on the part of the family, and only rationality prevails on the part of the company, is problematic (Zellweger, 2017). Owing to the different roles in the circle model, different goals inevitably emerge, which require a common alignment based on governance mechanisms. This alignment occurs between the controlling family, the shareholders, and the business subsystem, as described by Zellweger (2017). The controlling family's values and goals align with the shareholders' expectations through family and ownership structures as well as governance. Shareholders' expectations regarding dividends and risk aversion are aligned with the business subsystem through corporate governance. The business subsystem's vision and strategy are in turn aligned with the controlling family's values on ethics, identity, and reputation through family governance and information exchange.

The family can exert influence on the company in three different ways: by assuming management functions, by assuming control functions, and through its ownership. These three parameters constitute the family influence score as conceptualized by Klein (2000a, 2000b) and operationalized in the Family Influence on Power, Experience, and Culture (F-PEC) scale (Astrachan et al., 2002).

4.3.2. Socioemotional Wealth

For around 15 years now, SEW in short, has been treated as the most significant differentiating factor between family businesses and nonfamily businesses (including Berrone et al., 2012; Chen & Hsu, 2009; Miller & Le Breton-Miller, 2014). SEW can be described as the spectrum of nonfinancial values and goals of the family from the business (Zellweger, 2017). The theoretical anchor of this approach lies in the behavioral agency model (Berrone et al., 2014; Miller & Le Breton-Miller, 2014). The essential behavioral element of SEW explains the decision-making process in family firms (Brigham & Payne, 2019) and frames strategic choice options (Berrone et al., 2014; Debicki et al., 2016).

Nonfinancial goals can be broadly grouped into two categories: family-oriented goals (e.g., value alignment among family members or family reputation) and business-oriented goals (e.g., customer or employee satisfaction) (Felden et al., 2019). However, some decisions – such as appointing an inexperienced CEO from within the family – may appear irrational to outsiders (Kalm & Gómez-Mejía, 2016). To conceptualize these nonfinancial aspects, SEW is understood as a multidimensional construct (Brigham & Payne, 2019; Zellweger, 2017). While the aspect of family control on the business has been the focus of previous research (Swab et al., 2020), issues such as business identification, preservation of intergenerational dynasty, or building and expanding social capital (Gómez-Mejía et al., 2007) are also important. As a resource, SEW can serve to build positive corporate reputation, strong stakeholder relationships, and long-term orientation (Combs et al., 2023).

The so-called FIBER construct – with its five dimensions – forms one of the most prominent ways to conceptualize SEW. [Berrone et al. \(2012\)](#) summarize the SEW dimensions, as in [Fig. 4.1](#).

4.3.3. Characteristics of Family Firms

Peter Zinkann, former managing partner of Miele & Cie. KG, puts it succinctly. “Family businesses have one very big advantage and one very big disadvantage, and both are the family” ([Mengers & Prigge, 2017](#)). The personal ties of the family members involved in the business enable opportunities as well as risks ([Sanders & Rolfes, 2022](#)). In addition to regional roots, a special corporate culture, and long-term orientation of the company, there are also opportunities for the family to gain private benefits from the company ([Matias Gama & Rodrigues, 2013](#)). The average family business is comparatively older, more operationally diversified, and has shorter debt maturities with higher cash reserves than the average nonfamily business ([Gregoric et al., 2022](#)).

In addition to the significant share in economic growth, the creation of workplaces ([Märk & Situm, 2018](#)) also underscores the importance of this type of business. With around one-third of all listed companies, family businesses also account for a significant share in the capital market ([Anderson & Reeb, 2003](#); [Gregoric et al., 2022](#)). Moreover, the performance of listed family businesses exceeds that of nonfamily businesses ([Kolf, 2022](#)). Recent studies by the “Family Business Foundation” support this observation, with firms under founding family control (“founding family firms”) showing even stronger stock market performance (see [Fig. 4.2](#)).

[Kolf \(2022\)](#) identifies the emotional connection of the family as an anchor shareholder, a high degree of centralization with short decision-making paths, and conservative capitalization as key success factors.

4.3.4. Differences Between Family and Nonfamily Businesses

Family and nonfamily businesses are characterized by differences in the goal setting, formulation, content, and implementation of strategies ([Chrisman et al., 2008](#)). The associated decisions are made primarily with SEW profits or losses

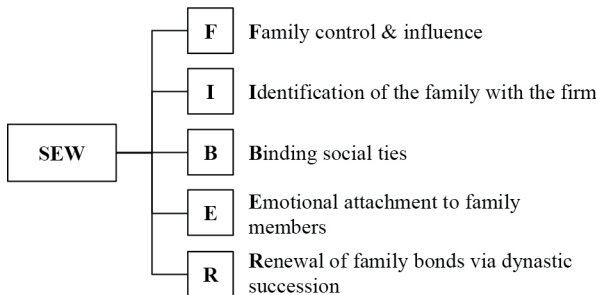


Fig. 4.1. SEW Dimensions in Accordance with FIBER Conceptualization.

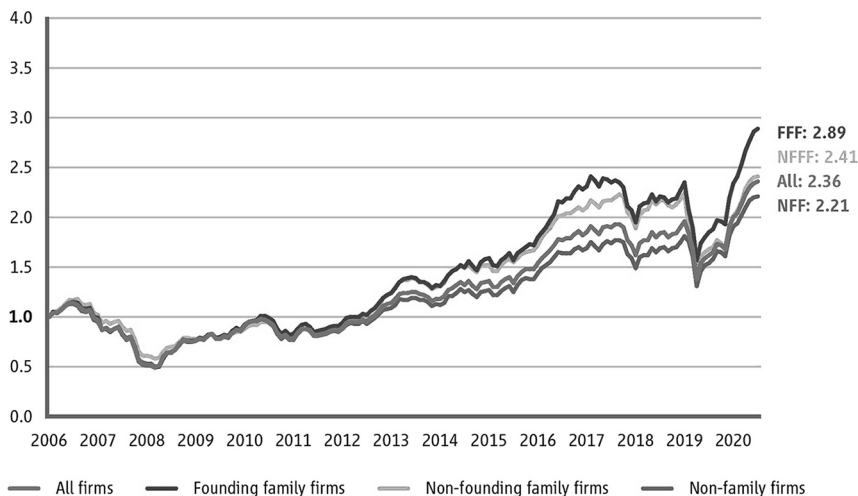


Fig. 4.2. Stock Market Performance over Time. *Source:* Gregoric et al. (2022).

in mind only in family businesses (Berrone et al., 2014). While family businesses think in terms of generations, nonfamily businesses must have profitable quarterly reports, especially PLC, for which nonfinancial goals may play a secondary role (Kemp, 2009). In addition, family businesses draw from a much wider range of business models and organizational forms. As a result, however, they also have less recourse to standardized strategy concepts and exhibit greater complexity in their corporate strategy (Kormann, 2017).

For Sirmon and Hitt (2003), the advantages of family firms are found in the resources of human and social capital, longer staying power, and improved governance structures, as well as costs. These advantages result in higher employment growth and stronger profitability compared to other types of firms (Gregoric et al., 2022). Listed family businesses show higher shareholder returns (Feldman et al., 2019; Gregoric et al., 2022); hence, investments in family businesses achieve improved portfolio performance (Grelck et al., 2017). Separate studies by the family business foundation (Gregoric et al., 2022) and Credit Suisse (Klerk, 2020) also observe that family businesses outperform nonfamily businesses. Stock price comparisons (Bandov et al., 2019; Kolf, 2022) support this observation.

However, even though both forms of business pursue the general goal of increasing shareholder value, long-term – or intergenerational – livelihood is only one major goal for the family business (Kormann, 2017).

4.4. The Public Listed Company

4.4.1. Purpose

The private-law company form of the listed stock corporation is a corporation of which the external shareholders hold shares in the company. Essentially, this corporate form serves to inject capital into the company, as many growth strategies

cannot be financed from retained earnings and capital increases by family members (Fleischer & Maas, 2021). However, a leap in professionalization (Bandov et al., 2019), a higher reputation, or initiating a succession plan (Selent, 2021) can also represent motivations for an initial public offering (“IPO”) of the family business.

Organizational structures and safeguarding processes between shareholders and other stakeholders are subsumed under the term “corporate governance” and are intended to address the principal–agent problem. This is understood to be the framework for good corporate management, control, and monitoring in the interests of all shareholders and stakeholders (Welge et al., 2017). The basic principles of separation of powers, transparency, motivation, and reduction of conflicts of interest (Welge et al., 2017) are to be observed under the aspects of shareholder and capital structure (Prigge & Offen, 2007). In a family business, the owners are superior to the management compared to PLCs. Therefore, the result is a long-term orientation of corporate governance in family businesses. Le Breton-Miller and Miller (2006) summarize these governance characteristics and their impact, as illustrated in Table 4.1.

However, problematic issues such as nepotism, asset tunneling, or economic entrenchment may also result from the unique governance structure in family business (Villalonga et al., 2015). This illustrates the extent to which shareholders with high ownership stakes can pursue their interests at the expense of minority shareholders (Selent, 2021; Villalonga et al., 2015). While the focus of a PLC is on capital contribution, family businesses strive to maintain control by the family (Selent, 2021). The legal form of the PLC and family businesses can, therefore, be seen as opposites.

4.4.2. German Stock Corporation Act

The legal significance and scope of the German Stock Corporation Act is evidence of principal–agent costs, or the differences between shareholders and management. There has been further development of the Stock Corporation Act and

Table 4.1. Governance Characteristics and Their Impact.

| Governance Characteristics and Outcomes in Family Businesses | |
|---|---|
| Governance Characteristics | Governance Outcome |
| <ul style="list-style-type: none"> • Long tenures of the CEO • Mindfulness for future generations | <ul style="list-style-type: none"> • Longer investment horizon, incentive for follow-up investments, sense of responsibility |
| <ul style="list-style-type: none"> • Control of the family and CEO • Ownership stake | <ul style="list-style-type: none"> • Sustainable investments • Lower monitoring costs with accompanying financial resources |
| <ul style="list-style-type: none"> • Experience of owner and CEO | <ul style="list-style-type: none"> • Less uncertainty for long-term investments |

Source: Based on Le Breton-Miller and Miller (2006).

enforcement of governance mechanisms to align the management board and supervisory board with the owners' interests. This takes into account the principal-agent conflicts that have gained importance (Fleischer et al., 2016). The Stock Corporation Act in Germany mainly refers to the three legal forms of the stock corporation ("AG," an equivalent to the PLC), the partnership limited by shares ("KGaA"), and the Societas Europaea (SE). Approximately 90% of the companies listed in Germany have chosen the AG as their legal form (Bandov et al., 2019).

Despite the special features of listed family businesses and their great importance in the German capital market (Fleischer & Maas, 2021), the same regulations *de lege lata* apply to family businesses as they do to conventional PLCs (Kormann, 2017). The statutory disclosure requirements play a special challenge for listed family businesses. The *ad hoc* publicity requirement, for example, serves the obligation to publish any insider information immediately (cf. Art. 17 1 of the EU's Market Abuse Regulation (MAR)). However, within the family circle, strategic decisions can be discussed in advance "at the kitchen table" (Fleischer & Maas, 2021). In addition, the law does not clarify whether a share issuer must identify itself as a family business. This, in turn, can have an impact on risk considerations for investors (Fleischer & Maas, 2021).

While shareholders cannot exert direct influence on the Management Board pursuant to Section 76(1) of the German Stock Corporation Act, the Management Board must report regularly to the shareholders in order to fulfill governance requirements (Kormann, 2017). Therefore, Section 161 of the German Stock Corporation Act also regulates the so-called "Declaration of Compliance" (Selent, 2021), which requires compliance with the German Corporate Governance Code (GCGC) or a public declaration of noncompliance.

4.4.3. Official Bodies of the PLC

German stock corporation law mandatorily provides for a dualistic system (Schaper, 2018), so that the Management Board and Supervisory Board are clearly demarcated bodies. This enables the supervision of the management by an independent third party, as well as an additional gain in know-how (Kormann, 2017). As a third body, the annual general meeting enables shareholders to pass resolutions. This tripartite organizational structure of a German PLC is governed by the German Stock Corporation Act and assigns clear rights and duties to the respective executive bodies.

The Management Board forms the corporate power center of the company (Selent, 2021), and its composition has a major impact on the company's performance (Ibrahim & Samad, 2011). The number of members and their independence vis-à-vis the owner family are of particular relevance here. Its role is to pursue the interests of all shareholders (Zellweger, 2017), with the family shareholder usually exerting a strong influence at the board level (Selent, 2021). The Management Board makes strategic decisions in business operations autonomously, as the shareholders generally do not have the overview to answer management questions (Fleischer et al., 2016).

The Supervisory Board is a kind of intermediate institution between the two bodies of the Management Board and the annual general meeting (Kormann, 2017). Pursuant to Section 111(1) of the German Stock Corporation Act, it monitors the Management Board, whereby its independence and personal responsibility are crucial (Glinkowska & Kaczmarek, 2015). However, for family shareholders, the Supervisory Board can also be an essential instrument of power to exert influence on the Management Board (Selent, 2021). There are transactions requiring approval pursuant to Section 111(4) Sentence 2 of the German Stock Corporation Act, which may only be made in consultation with the Supervisory Board. Furthermore, the Executive Board has reporting obligations to the Supervisory Board pursuant to Section 90(2) No. 4 of the German Stock Corporation Act (Fleischer et al., 2016).

The core task of the Supervisory Board is the continuous monitoring of the Management Board (Fleischer et al., 2016; Selent, 2021), as well as the appointment or dismissal of Management Board members (Glinkowska & Kaczmarek, 2015). In this context, the Supervisory Board should be a decision-making body with five to eight members (Schiede, 2008), and mediation in the event of a conflict between stakeholders should also be part of its tasks (Selent, 2021).

Pursuant to Section 118 of the German Stock Corporation Act, the annual general meeting serves to exercise shareholders' rights. The annual general meeting – which is usually held annually – decides on the resolutions specified by law or in the company's Articles of Association (e.g., appropriation of profits, discharge of the Management Board and Supervisory Board, amendments to the Articles of Association, etc.). Since the family shareholder plays a dominant role in the general meeting of listed family businesses, corporate policy decisions can also be made at the general meeting (Selent, 2021). The general meeting of the PLC elects the Supervisory Board to represent all shareholders (Glinkowska & Kaczmarek, 2015). Even though the further development of the German Stock Corporation Act has freed the Management Board from the right of the shareholders' meeting to issue instructions (Fleischer et al., 2016), certain decisions – such as amendments to the articles of association or the appropriation of profits – can only be made by the shareholders' meeting.

The field of institutional economics illustrates models of human behavior in relation to the organizational context, including the legal form. The following section expands on institutional economics and its key concepts.

4.5. Leadership Theories

4.5.1. Institutional Economics

Institutional economics focuses on understanding the role of institutions in shaping economic behavior (Groenewegen et al., 2010; Voigt, 2019). According to Groenewegen et al. (2010), the term “institution” might have various meanings, depending on the context. In institutional economics, the specific connotation of institution is that of rules that influence behavior, and also includes customs or practices. Institutions are defined as “systems of hierarchical man-made rules

that structure behavior and social interaction” (p. 25). Institutions are considered intangible capital. Intangible capital captures everything that is not physical. Institutions are underlying the economic activity in organizations as the “rules of the game.” Exploring institutions can illuminate relations between individuals and the organization.

Institutional economics relate to systems thinking. Hence, using systems thinking to explore family businesses appears viable, as suggested in the previous chapter. In that sense, the family business is both a conglomeration of systems and a set of institutions. System parts include institutions, and institutions are reflected in the systems. Systems and institutions are connected through relations and interactions.

In public listed family businesses, systems and institutions relate and interact to produce economic results. Institutional economics suggests specific concepts identifying the characteristics of organizational behavior (Ulrich, 2010). The concepts include ownership and management as the two main parameters (Papesch, 2010). The following illustrates the conditions as well as the psychological and situational mechanisms of principal–agent theory and stewardship theory.

4.5.2. Principal–agent Theory

Among the various concepts within institutional economics, the principal–agent theory is the most important (Furubotn & Richter, 2005). At the center of this theory are the emerging problems of an ordering party (principal), a business owner, and a recipient of orders (agent), the management (Teichmann, 2001). Principal–agent theory suggests that managers, left on their own, will not fully act as responsible stewards of the assets they control. This is a traditional perspective. The trade-off with corporations has been recognized as early as 1776: “But as the directors of such companies manage other people’s money rather than their own, they cannot be expected to watch over it with the same careful vigilance as the partners in a partnership often watch over theirs” (Smith, 1776; Stovall et al., 2004). Principal–agent theory assumes conditions of some form of Homo economicus, a self-serving model with extrinsic and economic motivation on a legal and coercive power base (Davis et al., 1997).

The in-built frictions of the relationship between principal and agent require control mechanisms to curb the self-interest of agents at the expense of the shareholders as well as make up for the differences in agreement on priorities and methods between principals and agents. Monitoring and internal controls become necessary to keep agents – who maximize their utility at the expense of their principals – in check. The German Stock Corporation Act (see Part 4) forms a legal field of its own, and functions also as a literal provision for misalignments of principal and agent. The German Stock Corporation Act seems to be a reification of the challenges in the relationship of principals with agents. Conflicts of interest can arise in family businesses between controlling (family) shareholders and noncontrolling shareholders (Villalonga et al., 2015). Information asymmetries between the shareholder groups can lead to opportunistic behavior.

The thinking of the principal–agent theory reflects the model of the PLC in the stock exchange, predominantly in free float. The free float includes all shares that are not held by major shareholders and therefore can be acquired and traded by the general public. In other words, principal–agent theory appears less reflective of the family business. However, “exclusive reliance upon agency theory is undesirable because the complexities of organizational life are ignored. Additional theory is needed to explain relationships based upon other, non-economic assumptions” (Davis et al., 1997). More recent thinking in institutional economics is influenced by alternative basic conditions, with regard to the underlying model of man and subsequent behavior.

4.5.3. Stewardship Theory

Stewardship theory began to emerge in the early 1990s (e.g., Donaldson & Davis, 1991). It suggests that managers – left on their own – will act as responsible stewards of the assets they control and that pro-organizational behavior is preferred to self-serving behavior. Because of its roots in sociology and psychology, stewardship theory describes a more humanistic model of man than the economic view of agency theory (Corbetta & Salvato, 2004; Donaldson & Davis, 1991).

Stewardship theory views the self-actualizing man and the motivation for collective serving as the behavioral model for managers. Managers pursue intrinsic, higher-order needs, including growth and achievement. The power base derives from personal traits, trust, low power distance, and a long-term time frame. Stewardship theory does not focus on the conflict between ownership and management. Instead, it assumes a complementary relationship and that managers perform better under self-regulation. Hence, monitoring and internal controls that keep agents in check are not deemed as important as they are in principal–agent thinking (Davis et al., 1997).

A stewardship climate requires strong connections between actors, and they should relate to the same social network. Chrisman et al. (2004) suggest that such conditions are usually given in the case of family businesses. Based on the systemic structure of family businesses and the typical traits – such as SEW – stewardship theory is more consistent with family businesses conditions, while there is no correspondence between stewardship thinking and nonfamily businesses, the PLC.

4.5.4. Reflections

The comparison of principal–agent theory and stewardship theory places listed nonfamily businesses and family businesses in their respective frameworks. We assume that such dichotomous attribution may be a simplification of reality. The public listed family business would fall through the grid. The question arises as to which of the two frameworks – principal–agent theory and stewardship theory – would reflect a public listed family business. Donaldson and Davis (1991) mention that principal–agent theory and stewardship theory are not alternative lenses, howsoever they might be complementary. This is supported by the work

of [Neubaum et al. \(2017\)](#), suggesting the stewardship climate scale as an empirically verified measure of stewardship climate. The scale uses 6 factors (intrinsic motivation, organizational identification, personal power, collectivism, low power distance, involvement orientation), aggregated by 18 items. There is no defined threshold that differentiates a stewardship climate from a non-stewardship climate. [Neubaum et al. \(2017\)](#) measure stewardship climate on a continuum. Consequently, additional research would be useful exploring where stewardship theory fits in the theoretical landscape of public listed family businesses, relative to agency theory.

4.6. Summary of Theoretical Considerations

This chapter established systems theory as a viable perspective on organizations. Individuals and subsystems of multiple individuals, such as families, are system components of organizations. They are the essential driver of organizational behavior (e.g., [Schwass et al., 2004](#)). System components are connected through reciprocal exchange relations. The collection of systems in an organization has the purpose to pursue organizational objectives. In the area of family business, systems theory is widely accepted and has been used for more than three decades ([Bork, 2022](#)).

In family business systems, the family is connected to the business through ownership and potentially through management. Family businesses accumulate SEW. SEW comprises all nonfinancial and affective values that exist in the organization. SEW is seen as a resource ([Combs et al., 2023](#)) and as a fundamental difference between family businesses and nonfamily businesses. The effect of SEW shows, for example, in social embeddedness, the long-term or multi-generational orientation of the family business ([Berrone et al., 2012](#)) and a lower priority of financial objectives ([Kemp, 2009](#)). There is no evidence that SEW varies with regard to the legal form of the organization.

The legal form of PLCs is primarily used to utilize capital markets for raising funds from external investors to become shareholders. An implication of choosing the legal form of a PLC is specific organizational requirements for the organizational structure. Legislation, like the German Stock Corporation Act, demands the provision of specific safeguarding structures, reporting requirements, as well as checks and balances between the management board, supervisory board, and shareholders' meeting.

Two of the prominent concepts within institutional economics are principal-agent theory and stewardship theory. The concepts suggest different structural and behavioral models for organizations. Principal-agent theory assumes separation of ownership and management with respective control mechanisms. A PLC is the structural and behavioral model of principal-agent theory. There seems to be low correspondence with stewardship theory, which is seen as the structural and behavioral model of family businesses. A main difference of stewardship theory is taking a different stance toward human behavior and reliance on trust instead of control mechanisms.

4.7. Research Propositions

The systemic set-up and SEW make family firms different when compared with PLCs. Family firms are associated with stewardship thinking. PLCs are affiliated with principal–agent thinking. Principal–agent theory – assuming the separation of ownership and management and the requirement for dedicated control mechanisms – seems incompatible with stewardship theory. Therefore, family firms that are PLCs appear as unforeseen crossbreeds. Such crossbreeds seem to contradict both categories and category connections in institutional economics and family business understanding. Nevertheless, “family-owned public listed companies” are a reality despite operating in a conceptual no-man’s-land.

In the following, this work will continue to explore the assumption of conceptual incompatibility of the legal form of a PLC with the characteristics of family businesses (*P1*). Ambiguities arise as to the specific requirements to the organizational structure of listed public companies. The purpose is to secure the interests of shareholders against managerial misconduct. In family businesses, this conflict is, however, untypical because share ownership and leadership positions may coincide. Furthermore, this work will investigate the apparent conceptual incompatibility of the legal form of a PLC with stewardship thinking (*P2*). This uncertainty emerges from the legislative requirements for the organizational set-up of a PLC and the assumption of self-serving managerial behavior. The assumption of collective serving behavior makes the organizational set-up of a PLC unnecessary because the risk of managerial misconduct is limited. Eventually, it will shed light on the apparent gap between principal–agent theory and stewardship theory and explore connections (*P3*). Building on *P1* and *P2*, we suggest a relationship of opposite logics, between principal–agent theory and stewardship theory, that exists in the business practice of family businesses in the form of PLCs. The propositions that are derived are the following:

P1. The legal forms of the listed stock corporation and family businesses are incompatible.

P2. The legal form of the public listed company and the stewardship theory are incompatible.

P3. The apparent polarization between principal agent theory and stewardship theory is an oversimplification.

Fig. 4.3 illustrates the research propositions. The lines indicate conceptual connections. Squares with equal signs indicate established connections, while squares with unequal signs denote uncertainty about the connection’s viability. Research propositions are directed to connections with unequal signs. The respective propositions are indicated by *P1*, *P2*, and *P3*.

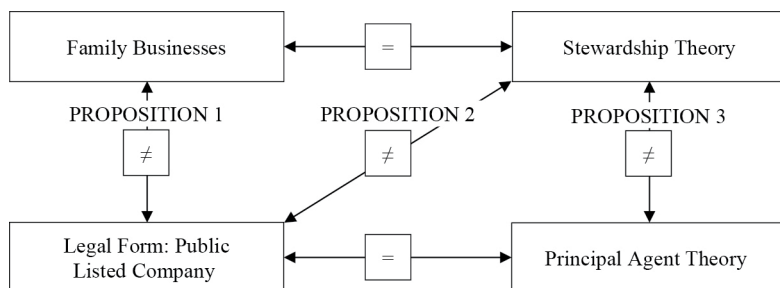


Fig. 4.3. Overview of Conceptual Connections and Research Propositions.

4.8. The Frosta PLC

4.8.1. Profile of Frosta AG on Shareholder Structure and Business Model

The family-controlled Frosta AG serves as the object of investigation for the formulated research propositions. Owing to its ownership and management structure, the company provides a suitable organization for illuminating the formulated hypotheses. The founder, Adolf Ahlers, began flash-freezing fish fillets on the high seas in 1957, laying the foundation for today's company. In 1961, his son, Dirk Ahlers, took over the management and developed the company under the Frosta brand into a market-leading manufacturer of frozen fish, ready meals, vegetables, and fruit. Today, the family business is managed in its third generation by the CEO Felix Ahlers. Since 1988, the company has been operating as an AG (PLC) with a three-tier shareholder structure. In addition to Felix Ahlers (33.7%) and Dirk Ahlers (10.0%), 56.3% of the shares are in free float. The Management Board consists of Felix Ahlers as chairman and two other members. Hence, although the company is not half family-owned, it is managed and controlled by the Ahlers family. The group generated sales of 527 million euros in Europe, which represents a decline of 4.4% compared to the previous year (2020). It has around 1,800 employees in six countries (Frosta AG, 2022).

Fig. 4.4 illustrates Frosta's business model with respect to its main features and provides an initial overview, whereby our context-specific considerations are aligned with the general framework proposed by Gassmann et al. (2013).

Frosta's four production sites serve the sales markets in Germany, Poland, Austria, Italy, and other parts of Eastern Europe. Customers in the markets are not only food retailers but also business customers (e.g., canteen operators) and end consumers addressed directly via e-commerce channels. Fish, vegetables, and fruit, as well as ready meals, form the central elements of the product portfolio (Frosta AG, 2021). The Frosta Group's business model is based on the procurement, production, and marketing of the abovementioned products. Special reference is made to quality and sustainability under the Frosta brand.

4.8.2. Determination of the Family Business Type

Owing to the hybrid company form between family ownership and shares in public ownership, the question arises as to whether Frosta AG can be described as a

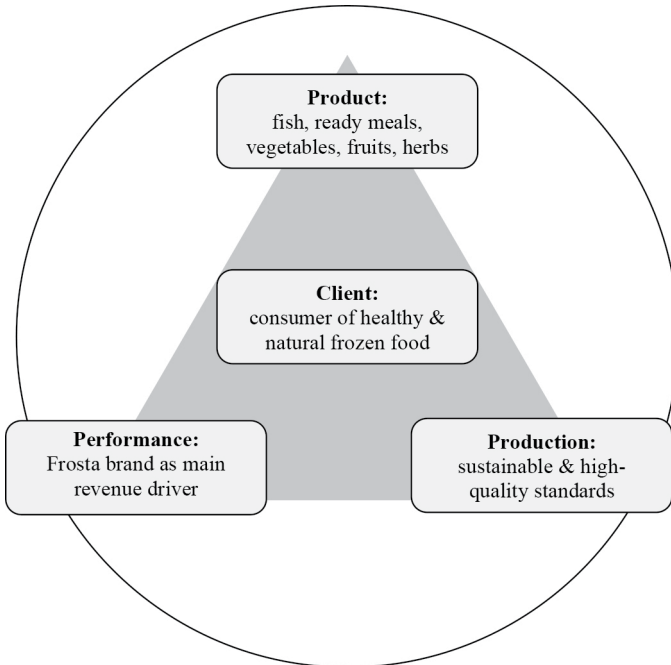


Fig. 4.4. Frosta Business Model. *Source:* Own illustration.

family business. Since there is no uniform definition of this type of company, various approaches can be used. However, all these definitions focus on the family's ability to influence the company. The European Commission specifies various criteria of a family business. In the case of specifically listed family businesses, 25% of the decision-making power entitled by shareholdings is in the hands of the founder or purchaser of the company shares or his/her family (European Commission, 2009). As the Ahlers family holds 43.7% of the shares in Frosta AG, this criterion can undoubtedly be confirmed.

A more nuanced definition is that of the “founding family firm” (Gregoric et al., 2022). In this case, the family with 25% of the decision-making power is directly related (by blood or marriage) to one of the founders of the firm. These firms are on average younger, larger, and higher performing than non-founding family firms or even nonfamily firms (Gregoric et al., 2022). Some 20% of all listed companies in Europe and about 62% of all family firms are founding family firms. Since Dirk and Felix Ahlers, with a total shareholding of 43.7%, are the son and grandson of the company founder Adolf Ahlers, Frosta AG can be described as a founding family firm.

In addition, a prominent approach to determining the type of family business is the F-PEC scale (Astrachan et al., 2002). It uses a multidimensional approach to measure the family's involvement in the company (P – Power), the family's experience in the company (E – Experience), and the extent of the company's unique culture (C – Culture). Despite the multidimensionality (Astrachan et al., 2002; Klein et al., 2005) of the F-PEC approach, a focus on the power dimension

is warranted. The power dimension can be described in terms of direct ownership, family involvement in governance bodies, and family influence on management (Astrachan et al., 2002). All these aspects are fulfilled by the involvement of the Ahlers family in Frosta AG.

4.8.3. Appointment to Frosta PLC's Executive Bodies

Owing to the central role of the Management Board and the Supervisory Board on the development of the company, family members can exert a great influence through both bodies. An examination of the composition of the boards over the past 20 years of Frosta AG underlines the importance of the Ahlers family. The chairmanship of both boards has been exclusively in family hands in recent years, with only a brief attempt at external management in 2002–2003. Following a 5% drop in sales and an 18% year-on-year slump in consolidated earnings, the family immediately rejoined the Board of Directors in an effort to reverse the trend. In subsequent years, half the Board of Directors consisted of family members, including the chair. When in 2010, only Felix Ahlers represented the family in the management as chairman of the Board of Directors, his father Dirk Ahlers moved to the Supervisory Board and took over the chairmanship of the controlling body. Hence, both the governance bodies were controlled by the Ahlers family. In addition, the size of the Supervisory Board gradually decreased from eight members in 2001 to three in 2021. In the last two years, Dirk Ahlers has retired from the chairmanship of the Supervisory Board, and now acts as a full member of the controlling body. Fig. 4.5 shows the changes in the membership of both boards.

4.9. The Methodology

A qualitative research approach can be a starting point to collect explorative data. This applies to the research propositions formulated above and the interviews conducted with family members in the management of Frosta AG. Since the research propositions are delineated against a background of behavioral economics, the aspect of a subjective reality is of importance. This is where the qualitative research method with its interpretative approach comes in (Reay & Zhang, 2014).

4.9.1. Interview Method

In order to be able to classify the analytical material that needs to be examined, the empirical data are placed in a communication context using interviews (Mayring, 2015). Hence, individual statements, or items, can be placed in an overall context. According to Reay and Zhang (2014), there are three main interview types. A structured interview resembles a survey and leaves little room for interpretation. An unstructured interview, on the other hand, allows the interviewee maximum freedom to conduct the interview. In this research, semi-structured interviews were conducted to combine the advantages of the two aforementioned approaches (Reay & Zhang, 2014). In this way, queries could be made about

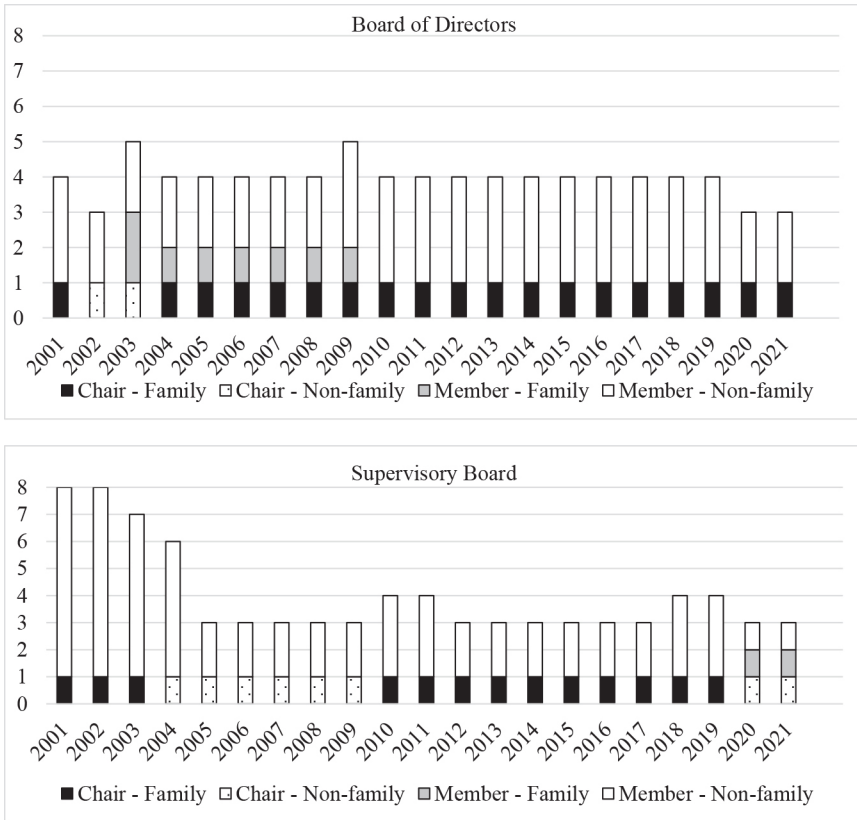


Fig. 4.5. Size and Composition of the Board of Directors and Supervisory Board.

various topics and a broad understanding of the important motives of Frosta AG could emerge at the same time.

A structure of guidelines (Mayring, 2015) was developed for the personal interviews with Frosta AG company experts. After a set of questions was prepared by the authors of this paper, these were checked for neutrality, openness, and redundancy. Subsequently, the questions were sorted into different categories and subsumed into the temporal phases of origins, past, present, and future. These phases served as the rough structure for separate interviews, each lasting approximately one hour.

4.9.2. Interview Partners

An interview with Felix Ahlers, member of the Board of Directors since 2003 and CEO of Frosta AG since 2010, and Friederike Ahlers, Head of Public Relations, served as a sample for the qualitative survey. Another interview was conducted with Dirk Ahlers, father of Friederike and Felix Ahlers. As the son of the

company’s founder, Dirk Ahlers has always fulfilled a role in the management bodies of the stock corporation since 2000 (see Fig. 4.6). After a short break from the Board of Directors in 2002–2003 and a strongly negative group result, Dirk Ahlers moved back from the Supervisory Board to the Board of Directors to adjust the operational management of Frosta AG. After Felix Ahlers took over the chairmanship of the Board of Directors from his father in 2010, Dirk Ahlers moved to the chairmanship of the Supervisory Board. This vividly shows how management bodies can be steered by family members.

The two interviews conducted allow us to analyze a cross-generational sample of a family. The active participation of the interviewees at times of a strategic turning point also made it possible to observe how family values and ideas influence strategic decisions. Owing to the participation of the Ahlers family in both management bodies, the principal–agent theory can be suitably examined.

4.9.3. Coding Procedure

Qualitative research – with descriptive and interpretative methodology – enables us to find well-founded propositions (Mayring, 2015). Within the qualitative content analysis of the interview transcripts, we followed the principles formulated

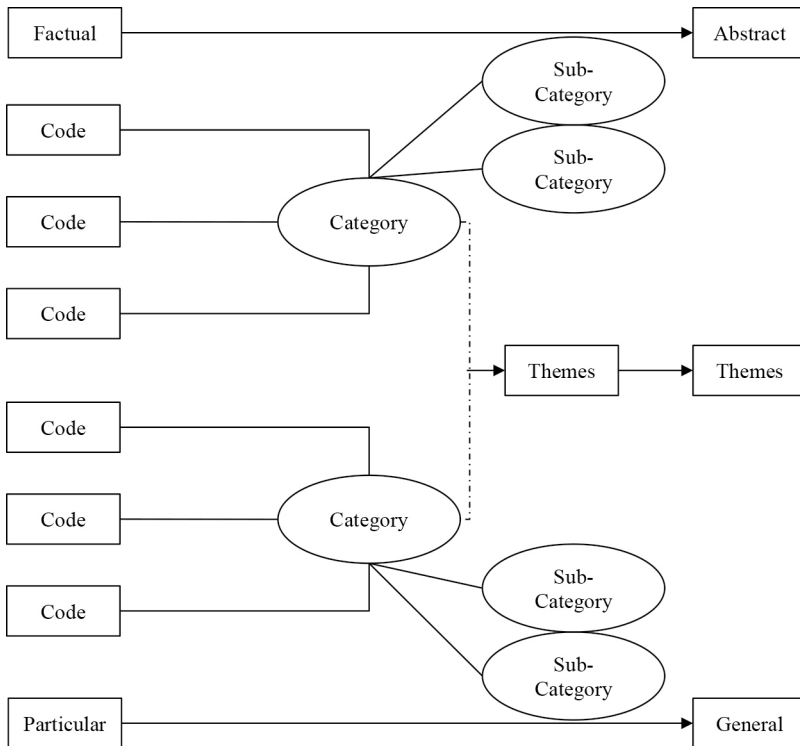


Fig. 4.6. Codes-to-theory Model Based on Saldaña (2009).

by Mayring (2015). Since the authors themselves were involved in the interview, the conditions of formation and implicit presuppositions in the protocol material are known. Behavioral economic leadership theories provide a starting point to derive an insight progression from the material.

Unique units of analysis were established as part of the coding process. Minimal text excerpts that fall under a category serve as the coding unit. Through this, we develop a category system that describes the reciprocity between questions and concrete statements in the interview material via assignment rules (Mayring, 2015). This grouping of codes into categories enables patterns to be identified (Saldaña, 2009). Fig. 4.6 illustrates the performed coding scheme.

4.10. Findings

4.10.1. Proposition 1 (P1)

P1 suggests that “the legal form of the listed stock corporation and family businesses are incompatible” (Fig. 4.3). Twenty items were coded from the transcription, which led to the formation of four categories. The categories are the principal components inherent to the items. And they are labeled in correspondence with the contents. The following will expand on the categories in relation to the research proposition.

The first category emerging from the coded items is labeled *family involvement*. The data suggest that the business strategy reflects the long-term beliefs of the owner family and that the beliefs are also the foundation of the corporate success story. The beliefs do not seem to interfere with governance principles, roles, and responsibilities. Instead, there seems to be coexistence between the beliefs of the owner family and the structural requirements of PLCs.

Over time, family members changed roles and responsibilities within the firm in strict and explicit compliance with the rules and principles of the German Stock Corporation Act. There is a pronounced valuation for the checks and balances as well as full recognition that family relations must not overrule – for example, regarding the relation between shareholding family members serving on the Executive Board and shareholding family members serving on the supervisory board. Both boards are separate entities with defined responsibilities that exist, regardless of shareholding of family ties. The transcriptions suggests that division of roles between the executive board and the supervisory board is part of a set of organizational guidelines that supports the governance of family dynamics. Respondents report that it is primarily the PLC’s corporate bodies with specific tasks and responsibilities that avoid friction and discord.

The second category is *participative management*. It comprises five items and describes the participative management style that includes both internal and external stakeholders. There appears to be little ambition to pursue a top-down approach. Instead, a participative management style that unites teams beyond formal roles becomes visible. Crunch times in the corporate history meant that also senior management must step beyond actual roles to support immediate organizational objectives.

Significance of economic profit is the third category comprising four coded items. While there is a clear commitment that financial profit is a necessary condition, and an area of constant attention and improvement, there seems to be little desire for the maximization of profits. The potential exchange of money against a loss of entrepreneurial influence or designing products to minimum costs is undesirable; profit maximization is not an objective of the firm.

A fourth is the category comprising three coded items, which is *communication*. The interview results suggest that communication is fully transparent and that all requests are answered as a matter of principle. Transparency appears as the dominant principle that is placed above the family reputation. The concerns seem to revolve more around the well-being of the company than of the reputation of the owning family.

The categories *family involvement*, *participative management*, and *communication* suggest no incompatibility between the legal form of the listed stock corporation and family businesses. According to the observations, there is productive interaction between the family business system and the systemic structure stemming from the requirements of the legal form of a listed stock corporation. Both seem to form a healthy relationship. The category “significance of economic profit” suggests that both family businesses and PLCs seek financial gain, albeit with different priorities. The family business states no desire for profit maximization at the expense of, for example, entrepreneurial control or product quality.

Overall, the data indicate that *P1*, suggesting that “the legal form of the listed stock corporation and family businesses are incompatible,” is not supported by the findings of this investigation. It appears as if there is a level of coexistence and that being both a listed stock cooperation and a family business is viable, and, indeed, very welcome, to keep undesirable family dynamics in check. This observation, however, does not seem to have been fully recognized in management thinking.

4.10.2. Proposition 2 (P2)

P2 suggests that “The legal form of the PLC and the stewardship theory are incompatible” (Fig. 4.3). Twenty-three items were coded from the transcription, which led to the formation of three categories. The following reflects the results in relation to *P2*.

The first category is labeled *balancing of interests*, and it comprises 10 coded items. Data suggest a collective view and a shared corporate vision related to long-term thinking, sustainability, and meaningful product characteristics within and beyond the boundaries of the company. This includes stakeholders and suppliers with balancing of interests to pursue collective serving of corporate goals. Trust is seen an essential component for healthy stakeholder relations. There are reports of personal connections between, for example, suppliers and company representatives. There is no notion of typical agency characteristics such as low-value commitment or self-serving. Moreover, the owning family feels responsible for the invested capital by nonfamily shareholders. The protection of nonfamily shareholders’ interests is therefore also part of the corporate behavior.

The second category consists of 11 coded items that relate to a long-term, basic corporate stance, including ecological and social sustainability. The stance is that sustainable corporate action with sustainable relationships tends to be impossible without reciprocity and trust. Legal requirements are seen as minimum requirements that are to be challenged regarding more impactful actions above and beyond. Again, the long-term positive development of the share price is considered important; however, the maximization of personal wealth is seen as unnecessary. Hence, we label this category as *aspects of sustainability*.

A third category refers to the *leadership style*. There is a strong perception for personal responsibility and reliability as leadership principles. The category leadership style consists of two coded items.

Overall, there is solid evidence that stewardship thinking exists, and can live, breathe, and thrive, within the legal form of a PLC and family business. Through all categories, a long-term orientation becomes visible, both in the economic and financial as well as social senses. *P2* – suggesting that “The legal form of the publicly listed company and the stewardship theory are incompatible” – is not supported.

4.10.3. Proposition 3 (*P3*)

Research *P3* assumes “that the apparent polarization between principal agent theory and stewardship theory is an oversimplification.” This suggests that a relationship of opposite logics may exist between the dominant perspectives of principal–agent theory on the one hand and stewardship theory on the other. Nine items were identified and allocated into three categories.

The first category is *financial orientation*. Four items were allocated in this category. These suggest the existence of economic motivation but do not suggest a short-term perspective. The public listed family business appears to value continuity and sustainability. The reports suggest that investments need to be meaningful and that long-drawn returns on investment cycles are acceptable. Hence, a reciprocal relationship of principal–agent and stewardship theory becomes perceptible. Financial orientation exists, though not as the pursuit of short-term financial gain. Financial orientation is subject to longer-term return periods. An additional observation relates to different return expectations in shareholder groups. Dividend payments are deemed more important for free-float shareholders than for members of the shareholding family. Such a conflict of interest is fully consistent with principal–agent theory. This suggests an ambivalent zone with “principal–agent shareholders” and “stewardship shareholders” standing side-by-side. Hence, a better understanding about return cycles and return expectations may help to define the relationship of the opposite logics.

The second category of *self-commitment* is composed of two items. Data suggest a deep sense of responsibility and obligation toward external audiences. Particularly, statements reveal an entrepreneurial spirit while acknowledging accountability toward society.

External stakeholders play a vital role in systems thinking. Both principal–agent theory and stewardship theory do not expand on stakeholder relations even

though this seems an important characteristic and resource of family businesses. The three items of the category *external stakeholders* are unable to provide support or rejection of *P3* regarding stakeholder relations. Further understanding of how institutional economics impact stakeholder relations might be needed.

In conclusion, none of these concepts – principal–agent theory and stewardship theory – seems to completely reflect the institutional economics of public listed family businesses. Referring to the stewardship climate scale (Neubaum et al., 2017), not all items were touched in the interviews. Nevertheless, we identify a tendency toward a conditional stewardship theory climate. Due to the principal–agent components the stewardship climate is not unconditional. Therefore, it falls on the continuum between agency theory and stewardship theory. The perspectives of principal–agent theory and stewardship theory appear to blend and blur in the case of PLCs that are family businesses. We see that a hybrid arises. We call the hybrid Stewardship PLC. The Stewardship PLC combines two contradictory perspectives. This case study suggests initial indications that PLCs that are family businesses have tangible stewardship elements going along with elements from principal–agent theory. The magnitude of one or the other is unidentifiable on the basis of the data generated during this research. We, therefore, conclude that there is partial support for research *P3*.

4.10.4. Summary of Findings

The examination of research propositions provided no support for two proposals, while one proposal was partially supported. Table 4.2 summarizes the outcomes.

The proposal of incompatibility of the legal form of the listed stock corporation and family business finds no support as well as the assumption of incompatibility between the legal form and stewardship theory. Family businesses may leverage the legal form to their advantage, while maintaining stewardship principles. Observations suggest that the polarization may be an oversimplification; however, limited specific insights can be derived from this study. We deem this as partial support for the proposal.

Fig. 4.7 indicates the relations between the variables included in this study. A connection with unequal signs denoted uncertainty about the connection's

Table 4.2. Overview of Outcomes for Research Propositions.

| | Research Proposition | Outcome |
|-----------|--|---------------------|
| <i>P1</i> | “The legal form of the listed stock corporation and family businesses are incompatible” | Not supported |
| <i>P2</i> | “The legal form of the public listed company and the stewardship theory are incompatible” | Not supported |
| <i>P3</i> | “The apparent polarization between principal agent theory and stewardship theory is an oversimplification” | Partially supported |

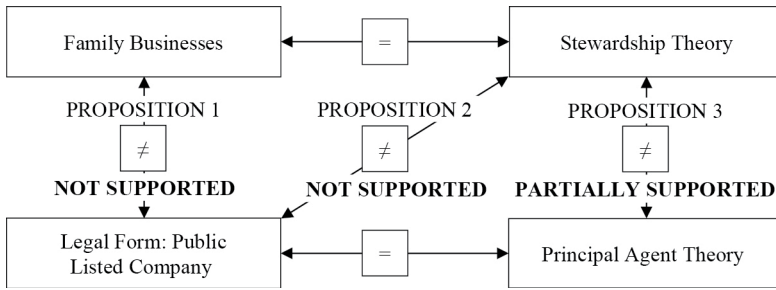


Fig. 4.7. Research Findings and Connection of Concepts.

viability. Remarks indicate whether this research found support, and the level of support for the unequal relationship.

The conventional assignments of business types to institutional economics and legal forms may have to be put in perspective, as well as the relations between concepts in institutional economics. Outcomes indicate that family businesses may benefit from being a listed public company, and, therefore, may bear elements from principal-agent theory that, in conventional thinking, is deemed incompatible with stewardship theory. Further stewardship theory appears able to unfold significantly in listed public companies if they are – like in this case study – family businesses.

4.11. Discussion

This section expands on the selected areas of the theoretical background of this case study. It provides a brief discussion of implications that are derived from the case study’s findings for the respective areas.

4.11.1. Systems Theory

Systems theory is a proven concept used to examine family businesses. Still, the concept requires specific content to come alive (Bork, 1986, 2022). Our research suggests that a public listed family business is not the mere combination of a PLC and a family business. You cannot add up the components and then expect a precise and predictable sum. Ambivalence arises from two sources. (A) Literature suggests contradictions and incompatibilities between a family business and a PLC as well as between stewardship theory and principal-agent theory. (B) According to the findings of this case study, there is a correspondence between family businesses and the concept of a PLC, as well as relatedness between stewardship theory and principal-agent theory. Additional understanding about the system dynamics occurring when family businesses are also PLCs could shed light on an area that so far seems to hold significant lack of clarity.

4.11.2. Family Business

Governance in publicly listed family businesses is not a one-way street. The blend of systems, subsystems, and the elements of the systems creates interrelations and

exchange relations. This is correct, but not sufficient, to state that governance mechanisms for goal alignment (Zellweger, 2017) ensure that the family does not only act for its own interests (Berrone et al., 2014; Debicki et al., 2016). A more comprehensive view should also consider external shareholders to – for example – support nonfinancial goals or sustainability targets. Hence, governance should walk down not less than two alleys – toward the controlling family of a public listed family business and toward its external shareholders. Hence, governance should not only be company-centric, but also provide sustainable motivations for external stakeholder groups. A wider governance angle beyond organizational boundaries could create a collective serving in the organizational environment. Furthermore, the family's stewardship role holds positive aspects for external shareholders if they do not aim for short-term profit maximization. If that is not the case, they can expect a usually outstanding commitment by the controlling family for the good of the business. Hence, two factors would foster long-term business continuity: a holistic view on governance including wider exchange relations and stewardship theory.

4.11.3. Public Listed Company

An IPO inevitably leads to a leap in professionalization (Bandov et al., 2019). We note from this paper that this not only results in a conscious examination of different return expectations, but also to a cultural rethinking within the company. Hence, a higher level of aspiration about socially desirable goals could be a result, and the family business' management would aim for sustainable development goals. Consequently, the family business will not stew in its own juices but respond proactively to stakeholder requirements, such as environmental care or social engagements.

4.11.4. Institutional Economics and Institutions

Institutional economics explore the rules of the game in organizations. There are various concepts, such as principal–agent theory with its specific institutions. It dates back almost 250 years and is the dominant way of looking at PLCs. It denies any sense of managerial responsibility except that for its own benefit. We believe that what has been helpful for centuries might have to be put in perspective (Donaldson & Davis, 1991), particularly today. Changing times suggest that the availability of, for example, ecological, economic, and other resources may be less self-evident in the future. Therefore, we believe that working only toward the “organization of profit” – as depicted in principal–agent theory – has an expiry date. Later suggestions, such as stewardship theory, emerging about 220 years later than principal–agent theory, assumes a stronger sense of collective serving and does not mention the achievement of financial gain as an explicit feature of human motivation. It is deemed to be the model of family businesses.

4.12. Final Conclusions

Where does this case study leave us? At a point where none of our initial research propositions found full support, despite being derived from the literature. But

also, with the assumption that what is seen as a contradiction can make the case for a healthy connection: The Stewardship PLC. Based on this case study, a Stewardship PLC exists as the best of what was once known as two different worlds. However, the very limited scope of this case study imposes limitations on the results; further research is required. The observations together with the research experience are inspirational for us, and, hopefully, for other family business researchers who leave no stone unturned for the development of the entire field of family business research.

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