

# Board functions in governance arenas: a comparative case study of four Swedish family firms

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## Abstract

**Purpose** – The purpose of this paper is to explore board functions and their location in family firms.

**Design/methodology/approach** – Through structured induction in a four-case study of medium-sized Swedish family firms, the authors demonstrate that board functions can be located in other arenas than in the common board and suggest propositions that explain their distribution.

**Findings** – (1) The board is but one of several arenas where board functions are performed. (2) The functions performed by the board vary in type and emphasis. (3) The non-family directors in a family firm serve the owners, even sometimes governing them, in what the authors term “bidirectional governance”. (4) The kin strategy of the family influences their governance. (5) The utilization of a board for governance stems from the family (together with its constitution, kin strategy and governance strategy), the board composition and the business conditions of the firm.

**Research limitations/implications** – Being a case study the findings are restricted to concepts and theoretical propositions. Using structured induction, the study is not solely inductive but still contains the subjectivity of induction.

**Practical implications** – Governance agents should have an instrumental view on the board, considering it one possible governance arena among others, thereby economizing on governance.

**Social implications** – The institutional pressure toward active boards could paradoxically reduce the importance of the board in family firms.

**Originality/value** – The board of a family company differs in its emphasis of board functions and these functions are performed with varying emphases in different governance arenas. The authors propose the concept of kin strategy, which refers to the governance importance of the structure of the owner and observations on bi-directional governance, indicating that the board can govern the owners.

**Keywords** Board, Board functions, Family firm, Corporate governance, Comparative case study

**Paper type** Research paper

## Introduction

*Le teorie . . . hanno dei doveri verso i fatti, mentre i fatti non hanno che dei diritti verso le teorie.*  
[Theories . . . have duties towards facts, while facts only have rights towards theories.] (Zappa, 1939, p. 3)



It has been claimed that the board has the two functions of monitoring and service (Forbes and Milliken, 1999; Hillman and Dalziel, 2003; Mori and Charles, 2019), or even four functions, with the addition of strategic decision-making and conflict resolution (Collin, 2008). We suggest not only that boards differ in their emphasis of these functions but also that these functions are performed with varying emphases in different arenas, with the board meeting being but one of several arenas.

The board has attracted considerable attention from many directions, partly because it is assumed to be a powerful corporate governance mechanism (Bettinelli *et al.*, 2023). For example, it has attracted attention in the public debate and from consultancy firms (PwC, 2016) and regulators (i.e. as expressed in governance codes and legislation). Moreover, the board has been in focus in research; for example, as of December 2021, 14 821 journal articles had been published on board diversity, which is only one dimension of the board (Lu *et al.*, 2022).

Researchers contribute both knowledge and normative judgments. For example, in research on family firms, researchers often judge the boards they are studying by criticizing the firms for being “undergoverned” in terms of board of directors (Spanos *et al.*, 2008, p. 472) and for having passive boards (Fiegener, 2005; Huse *et al.*, 2008) that “do not work particularly well” (Chrisman *et al.*, 2010, p. 19), where an absence of independent directors is viewed as an indication of a low knowledge base in the family, showing that the family is less aware of the value added by independent directors (Voordeckers *et al.*, 2007). Governance praxis – that is, the economic actors of governance performing their acts of governance – appears to be more instrumental toward the board (McCracken, 2015), applying a more organic or evolutionary governance (Collins *et al.*, 2014). How the board is used varies, and may range from being a mere paper product (Huse *et al.*, 2008) that exists because of legislation, a “ceremonial site” (Charas and Perelli, 2013) or a rubber-stamp board that approves pre-made decisions (Gabrielsson and Huse, 2005), to being an active organ that performs a strong governance function (van Aaken *et al.*, 2017).

Studies have generally avoided trying to understand the rationale behind such board behavior, except as a consequence of family owners retaining control (Gómez-Mejía *et al.*, 2011). There are a few exceptions, however. For example, Huybrechts *et al.* (2016) found that there is a board task gap – that is, a difference between the firm’s need for monitoring and service tasks and the actual performance of the firm’s board. Some studies have found that owners, directors and managers may prefer arenas other than board meetings – such as advisory boards (Blumentritt, 2006) or informal discussions – in which to perform the functions considered to be board obligations (Gersick *et al.*, 1997).

There appears to be a theory-praxis gap, with governance praxis differing from the demands and expectations of governance researchers concerning the board. This could be because researchers tend to use deductive, quantitative approaches (Lu *et al.*, 2022), in which they, for example, assume the presence of board functions at the board, thus letting theory have rights to organize the data, without having the duty to explore if the assumption is empirically correct.

In this paper, we take the initial quote by Zappa as advice and do our utmost to let facts – not theories – have rights; or, in other words, to focus on what the facts themselves reveal, rather than what theories may lead us to expect. We do so by reversing the proposition that boards have functions by claiming that there are *governance functions*, termed “board functions”, that are emphasized in different *governance arenas*, which are formal or informal spaces in which actions and interactions concerning governance issues can and/or should appear, and that one of these arenas is the board. Unlike a great deal of board research, which applies deductive, almost normative, approaches and assumes that the board performs functions, we use empirical material gathered through observations in four case studies, analyzing it using a structured inductive method that is as theory-independent as possible. Through this method, we create concepts and an understanding of the emphasis of board governance functions in different governance arenas.

We study four family firms in a comparative case study. First, we observe the emphasis of the four board functions, identified using theories of governance, in four governance arenas identified through induction. We then try to understand the location (i.e. occurrence) and emphasis (i.e. frequency and importance) attributed to the board functions in the different arenas used by the family (i.e. the main governance actor), firm and environment. This approach makes it possible to understand the emphasis on these board functions as a result of actors using the board as one of several arenas of governance.

The method used can be described as structured induction (Alvesson and Kärreman, 2007; Eisenhardt, 1989; Eisenhardt *et al.*, 2016; Fereday and Muir-Cochrane, 2006) or theory elaboration (Fisher and Aguinis, 2017). In our case, it involves using important concepts to structure observations concerning board functions, letting the empirical material inform us about the actual arenas and, finally, through qualitative, critical analysis, allowing us to create an understanding of the location and emphasis of board functions. We strive to follow Zappa's (1939) advice, letting the observations speak and listening as much as possible, even though we can only hear them through our concepts and our will to understand.

Through our findings, we contribute to family firm governance research by showing how the family and its constitution influence firm governance through the location and emphasis of board functions. This paper continues by defining the board functions considered here and then outlining the empirical method. The four cases are presented, as are the location and emphasis of the board functions. We then turn to a comparative analysis of the cases and present and discuss our findings. We conclude the paper by outlining its limitations and implications for practice.

### The board and its four functions

Studies of the board in corporate governance tend to identify two (e.g. Hillman and Dalziel, 2003; Zahra and Pearce, 1989), three (e.g. Brunninge and Nordqvist, 2004) or four (Collin, 2008) board functions. The two-function view is based on large publicly listed US corporations, which is too restricted a view when considering more common businesses such as family firms; we therefore use the four-function conceptualization of board functions. The *monitoring function*, which entails the oversight of the managers and their actions, is performed by shareholders or their agents (e.g. board directors or auditors) or by other stakeholders (e.g. banks and mass media). The *resource provision function* is performed by actors serving the corporation – mainly the managers – with advice and contributing network contacts, legitimacy and reputation (Hillman and Dalziel, 2003; Zahra and Pearce, 1989). The *decision-making function* entails the formulation and making of decisions concerning or influencing the firm's strategy (Judge and Zeithaml, 1992). The *conflict-resolution function* concerns negotiations with or between principals and agents concerning the strategy and goals of the firm (Anderson and Reeb, 2004; Bammens *et al.*, 2011; Collin and Ahlberg, 2012; Siebels and zu Knyphausen-Aufseß, 2012).

It should be noted that all these functions are directed toward the corporation, even though, for example, conflict resolution implies that the board merges various shareholders' – even stakeholders' – viewpoints into one, and then forwards the matter to management. Some scholars have considered the possibility that the board is directed toward the owners (i.e. Huse *et al.*, 2008), although the dominant approach is the agency theory view of delegation – that is, that the board is an intermediary between the shareholders and the firm, and uses ownership rights delegated by shareholders in order to influence management.

Some earlier studies have found that these functions can be located outside the board (Blumentritt, 2006; Brunninge and Nordqvist, 2004; Corbetta and Tomaselli, 1996; Fiegenger, 2005; Gnan *et al.*, 2015; Nordqvist, 2012; Pye, 2004). Their observations have not been conceptualized as a theory or propositions predicting or explaining the location and emphasis of board functions. It is to this endeavor that we now turn.

## The empirical method

From our conceptual understanding, we know that we are seeking four board functions, and that there is at least one governance arena: the board. Other arenas also exist, so we want to not only determine the distribution of board functions but also understand their location and emphasis, where “location” is the occurrence of actions and interactions that can be interpreted as fulfilling one of the four functions of the board within a governance arena, and “emphasis” is the frequency and importance of the function within a governance arena. To empirically find these arenas and causes, we use structured induction; that is, we use concepts in as theory-free a way as possible to identify empirical material that is useful for interpretation. We undertake a four-case study, since we are looking for variance in both the location and emphasis of board functions and their causes, and four cases is the minimum for doing so (Eisenhardt, 1989).

Structured induction is a method that deviates from the pure inductive method in that the collection of empirical material, its abstraction into data (Alvesson and Kärreman, 2007) and part of the interpretation are based on a pre-conceptualization. In this study, this pre-conceptualization treats the four board functions, their operationalization and the board as one arena. We also expect to find other relevant arenas, as identified in other studies, such as family gatherings and family councils (Nordqvist *et al.*, 2014). As noted by Eisenhardt (1989), *a priori* specifications, such as our concepts of board functions, improve the possibility of accurate observations.

We selected medium-sized family firms and conducted a theoretical sampling based on the expectation of finding variance in the allocation of board functions and activities. While seeking a slight size variance (cf. Miller and Friesen, 1984), we excluded very small and very large firms, since we expected them to represent extremes in board function allocations.

We compiled a list of family firms, which are defined as firms in which one family retains at least 50% of ownership and more than one family member is engaged in the board or the top management team (TMT) (Le Breton-Miller and Miller, 2008; Westhead and Cowling, 1998). We also wanted variance in the composition of the board – that is, boards comprising not only family members but also independent directors (Gómez-Mejía *et al.*, 2011). Moreover, we wanted to have variance in terms of generational involvement in the firm (Collin and Ahlberg, 2012).

Using this list, we contacted potential case firms and, based on information gathered during this process, identified another important family firm characteristic: namely, that the chair or CEO considers the firm to be a family firm. Four firms agreed to participate in our study. As will become obvious, we obtained variance in certain variables that we had not previously identified as important; our interpretation later indicated that differences in these variables could partly explain the variance in board function location. Of course, we did not necessarily identify all possible variables, so, as this is an inductive four-case study, we cannot present an exhaustive list of the causes of board function location and emphasis.

The collected empirical material consists of 10 years of public annual reports, newspaper articles, firm websites and semi-structured interviews, all addressing the case firms. These varied sources provided both rich empirical material and the possibility of triangulation during interpretation (Garg and Eisenhardt, 2017). However, the major source of empirical material was the interviews. We conducted five interviews in Firm A, six in Firm B, seven in Firm C and nine in Firm D. The different numbers of interviews mostly reflect the size of the firm and the owning family. A total of 27 interviews were conducted, ranging in length from 30 min to 2.5 h, with the most frequent length being 1 h. All but one were recorded and transcribed verbatim. All interviews used the same interview guide. Two researchers were present and asked questions during all the interviews, allowing (1) a more diverse set of follow-up questions than if only one researcher were present; and (2) immediate impressions and interpretations to be shared between interviewers after each interview, bolstering reliability (cf. Eisenhardt, 1989).

To ensure variance among the respondents for each firm, who comprised owners, family members from different generations engaged in the firm, and non-family members on the board and employed at the firm, we interviewed all board chairs and CEOs and at least one additional board and TMT member. This allowed us to construct more reliable data about a situation or a phenomenon. It could be noted that the problem of identifying family members that appears in large samples, was not an issue for us since we identified those as family members that were identified as family members by the respondents. There was no ambiguity in this identification.

The data analysis consisted of one part focusing on induction and another part concentrating on interpretation. The structured induction dealt with the localization and emphasis of board functions, as we identified the arenas (i.e. spaces where action and interactions concerning governance issues appeared) and emphases (i.e. the frequency and – according to our interpretation – importance of the function within a governance arena) of the various board functions. The structure – that is, the deductive coding (Miles *et al.*, 2014) – was provided by our board function concepts, which allowed us to identify four different functions: monitoring, decision-making, resource provision and conflict resolution (Collin and Ahlberg, 2012; for a full presentation of the coding, see Ahlberg, 2021). Based on numerous empirical papers on board functions, we established a list of indicators of the different functions. For example, our operationalization of monitoring included “evaluate TMT work and performance”, that of resource provision included “provide advice to the board concerning financial matters”, that of decision-making included “discuss the firm’s future strategic choices”, and that of conflict resolution included “solve conflicts concerning how to achieve what is best for the corporation”.

We created a schema of the identified location and emphasis of board functions in which we represented the location of a function with a box and conveyed our interpretation of the emphasis of that function by assigning the boxes differing degrees of brightness, ranging from white to black, with white representing an absence of the function, black representing very strong emphasis and four shades of grey between. The location and interpretation of the governance emphasis were determined independently by the two researchers performing the interviews. Divergences in interpretation were discussed until consensus was reached.

The arenas were identified purely inductively by noting where functions appeared. We identified four arenas: board meetings, TMT meetings, spontaneous conversations not localized to the other arenas and family gatherings. Additional arenas that have been observed in other studies – including the arenas of agreements and mission statements and the family governance arenas of family assemblies and councils (Arteaga and Escribá-Esteve, 2021; Gnan *et al.*, 2015; Nordqvist *et al.*, 2014; van Aaken *et al.*, 2017), family offices and advisory boards (Blumentritt, 2006) – were not identified in our cases.

The interpretative part, in which we tried to understand the location and emphasis of the board functions, was a “messy” (Eisenhardt *et al.*, 2016), interactive and reflexive activity in which we created interpretations, tested them against the empirical material in reflexive discussions (Hibbert *et al.*, 2014) among the researchers, refuted them, developed them, discussed them again and finally reached a stage at which some interpretations could not be refuted, given the empirical material. While interpretation can be considered subjective, we can at least claim it to be intersubjective here, since the interpretation involved several interpreters with both converging and conflicting interpretations (Eisenhardt, 1989). However, as Eisenhardt and Graebner (2007) stated and Zappa (1939) advised, constructs – or, rather, interpretations – are always confronted by the voice of the data, which can ruthlessly falsify them. For a researcher, there is an unending struggle between the will to understand and overcome the mystery (Alvesson and Kärreman, 2007) and the will to falsify interpretations.

The presentation follows the interpretations, starting with the individual cases and then providing interpretations based on a comparative case analysis (Eisenhardt, 1989). Since our interest lies in finding reasons for board function location and emphasis in family firms, we first conduct an analysis restricted to our empirical context of family firms. Since there are

four cases, which allows for robust constructs (Eisenhardt and Graebner, 2007), and because there is variance among them, we can increase the abstraction level by leaving the context behind and arriving at general conclusions about board function location and emphasis.

Finally, a note about the presentation: we do not use the technique of representative quotations (e.g. Eisenhardt and Graebner, 2007; Garg and Eisenhardt, 2017), since it is a rhetoric instrument used to infuse constructs with credibility. Qualitative analysis implies that conceptualization is built, not on quotes – where one short, separated statement by a single respondent can be made to be representative of an interpretation – but on interpretations of a multitude of empirical materials.

### Location and emphasis of board functions in the four cases

In this section, we present the four cases and the findings from our structured inductive analysis concerning the location and emphasis of the four board functions. The cases are anonymized, as we promised the participating respondents anonymity; thus, for example, the financial data about the firms are approximate to prevent identification.

#### *Firm A*

Firm A has a highly focused strategy and produces one type of product in many varieties, based on the same technology and material. It is positioned within an industry characterized by continuous small-product development but without dramatic change in technology or market. The competition is moderate. The firm has existed for about 80 years, including 40 years as a family firm. It has sales of about EUR 4.2 million, capital of about EUR 2.7 million, a debt-to-equity ratio of 0.47, an ROA of about 0.12, a profit margin of about 0.08 and sales growth of about 80% over the last 10 years. The dividend level is low, about 2% of equity on average. The low variance in these variables over a 10-year period indicates that the business is stable, with fairly stable growth and performance.

The firm is wholly owned by the family; the second and third generations retain ownership and are largely involved in the firm. Of the available family members (defined by blood or partnership/marriage), 50% are involved in the firm as owners and/or employees; that is, there is a nepotistic supply of family members to the firm (Nicholson, 2008; Collin and Ahlberg, 2022). Regarding the “nepotistic impregnation” (Collin and Ahlberg, 2022), that is, the share of engaged family members, 100% are involved as owners, 83% as board members and 100% at the TMT level. The genetic relatedness of the board members – that is, the family coefficient (Collin and Ahlberg, 2012) – is 0.43, dominated by close relatives (0.5 share = 0.7), so the firm is highly family dominated. The board has five members, all family and meets once a year, which is when the auditor presents the audit and the necessary legal documents are signed. It is therefore mainly a “paper board” (Huse *et al.*, 2008) performing its legal duties. A schema of the board functions in firm A is presented in Table 1.

The board performs a slight monitoring function when the auditor presents the audit and the board receives information about the financial statements. The auditor also performs a service function by discussing the dividend and, sometimes, the tax situations of the owners; however, that service is performed by the auditor and is therefore not considered a service created by the board but rather one that is provided to the board members as owners.

The main governance body appears to be the TMT and its meetings. Here, the firm's performance is discussed, decisions are made and issues triggering different opinions are discussed. The TMT consists of the family members and one non-family employee, so it cannot be considered a deputy board. However, it can become a quasi-board; for example, on one occasion, the non-family TMT member had to leave to take a phone call and the others, who are also board members, discussed and decided on the dividend before the non-family

	Monitoring	Service	Decision	Conflict res	Total
The board					
TMT Meetings					
Spontaneous conversations					
Family gatherings					
<b>Total</b>					

Note(s): Emphasis

No emphasis	
very low emphasis	
low emphasis	
Moderate emphasis	
High emphasis	
Very high emphasis	

Source(s): Authors own creation

**Table 1.**  
Board functions at  
firm A

member returned. In this case, it was not the board that became active but the family, deciding upon family matters.

Another indication of the board's character as a "paper board" occurred when the main bank of the firm suggested placing a director on the board, probably with the aim of monitoring financial stress risk. The CEO and family reacted very strongly, not wanting the bank's "nose in their business" and – echoing Ford (1988) and Klein *et al.* (2005) – not seeing how an outsider could contribute, since the outsider did not know the firm or its industry. We noticed that their arguments did not indicate any concern about the board as such. Their response was to change the main bank. Spontaneous conversations mostly covered firm issues, which we interpret as a monitoring function. In addition, issues at hand involving differing opinions among the family members were discussed, which can be considered as conflict resolution. The second most important governance arena was family gatherings, where all functions except service ones were performed, although some of the interviewees said that they tried to avoid too many "work discussions" at family gatherings.

We see no service function being performed in any arena, possibly because the firm operates within a stable industry, where the family's competence is considered adequate. Monitoring appears in all arenas but is most emphasized in the TMT meetings, possibly because all major family members are TMT members. It is also during TMT meetings that major decisions are made, complemented by family gatherings. Decisions are made when most of the involved family members are present, indicating strong family unity. Conflict resolution appeared in the three arenas, without emphasizing any one of these. We were unable to distinguish between governance and operational issues, so we cannot determine whether the spontaneous conversations focused on operational issues. Considering the strong family unity, more operational discussions might be expected in spontaneous conversations.

In sum, due to the high nepotistic impregnation, which could be both a consequence and cause of the high level of family unity, the governance of Firm A appears to occur in arenas where the family is gathered – that is, the TMT and family gatherings. We also observed a very high level of strategy consensus at the firm, not only among the family members but also among the employees, with everyone from the CEO to the machine operator describing the strategy in the same way. This strong strategy implementation could be a result of the strong family unity and strong family impregnation of the firm, and because the family supplies about 15% of firm employees, serving as managers in all firm functions.

*Firm B*

Firm B has a highly focused strategy: it is engaged in retail, with a stable market and moderate service development and without dramatic technology change. The competition varies due to the establishment of competing retailers. The firm has existed for about 100 years; originally established as an entrepreneurial firm, it became a family firm in the second generation and is now controlled by the third generation. It has sales of about EUR 25 million, about EUR 18 million in capital, a debt-to-equity ratio of 0.35, an ROA of about 0.04, a profit margin of about 0.02 and sales growth of about 60% over the last 10 years. The dividend level is moderate, at about 3.63% of equity on average. The variance in these variables over a 10-year period is rather low, indicating a stable business with slight and stable growth and stable overall performance.

The firm is wholly owned by the family. The family is small, with three individuals available – the father and two children – and with the firm exclusively in the hands of the father as the sole owner. He is an active entrepreneur who is involved in other firms and activities as well. As all three family members are on the board, the nepotistic supply is 100%, but the nepotistic impregnation is 33% of ownership (i.e. only one of the three retains shares), 100% of the board, on which all three serve, and 33% of the TMT, in which one child only recently became involved. The family coefficient of the board is 0.07, with only close relatives being involved (0.5 share = 0.14). Thus, this very small family is mainly involved in the board.

The board has seven members, with the father as chair, the children as deputy members and two employees and two external directors as members. The board meets three times a year. From the family perspective, the board can be considered a university board (Ahlberg, 2021), where the children gain knowledge of the firm.

A schema of the board functions in firm B is presented in Table 2.

The board appears to be the main governance arena, focusing mostly on service. The functions of monitoring and decision-making are performed, but the main function – as indicated by the owner – is to facilitate discussions in order to arrive at decisions. The external directors and the employees on the board appear to be complementary to the service functions, with the internal members contributing operational knowledge and the external members contributing strategic views.

The TMT did not appear to perform any governance function but was focused on managing the firm. One of the children recently joined the TMT, handling operational tasks. The very low nepotistic impregnation of the TMT indicates that the TMT focuses on management and not governance. However, the non-family CEO considered one of his duties

	Monitoring	Service	Decision	Conflict res	Total
<b>The board</b>					
<b>TMT Meetings</b>					
<b>Spontaneous conversations</b>					
<b>Family gatherings</b>					
<b>Total</b>					

**Note(s): Emphasis**

No emphasis	
very low emphasis	
low emphasis	
Moderate emphasis	
High emphasis	
Very high emphasis	

**Source(s):** Authors own creation

**Table 2.**  
Board functions at firm B

to the owner – but mainly to the firm as a family firm – to be educating and encouraging the children to assume responsibility as family owners. The succession strategy was thus partly created and performed by the non-family CEO.

Spontaneous conversations occurred not in the family but between the father and people in his network: as an entrepreneur embedded in a network of other entrepreneurs, meeting them in many different places, he gained inspiration and ideas, thereby performing a service function jointly with external individuals. Family gatherings were the arena where the father presented ideas and listened to his children. This arena performed only a slight decision-making function, since decisions were made by the father, albeit after listening to his children.

The emphasized function was service, since the main decision-maker was the father, who needed inspiration and input from others. In this sense, the firm appears to be more like an entrepreneurial firm than a family firm. Nevertheless, the family is present and one of the functions of the CEO is to guide the children to become family owners.

In sum, an entrepreneur governs the firm, with some services provided by the board and other actors. The management is in the hands of non-family members, partly because the entrepreneur is engaged in other businesses and the other family members are being slowly introduced to the firm, especially to the governance function of the board and of family meetings.

#### *Firm C*

Firm C has a highly focused strategy, producing various applications of a standardized product. The applications require some development but, overall, the technology and material have remained the same, with a rather low level of development. The competition is moderate. The firm has existed for about 40 years. It has sales of about EUR 10 million, about EUR 6 million in capital, a debt-to-equity ratio of 2.33, an ROA of about 0.04, a profit margin of about 0.02 and sales growth of about 12% over the last 10 years. The dividend level is low, about 1.7% of equity on average. The variance in these variables over a 10-year period indicates that it is a stable business, with low stable growth and stable performance.

Firm C is wholly owned by the family, with the first and second generations retaining ownership and all of the first generation serving as board members. Of the available family members (defined by blood or partnership/marriage), a 50% nepotistic supply is engaged in the firm. Regarding nepotistic impregnation, 83% of the involved family members are involved as owners, 83% as board members and 50% at the TMT level. The genetic relatedness of the board members – that is, the family coefficient – is 0.17, dominated by close relatives (0.5 share = 0.33). Half of the family of 12 is engaged in the firm, and the firm is impregnated with the family in terms of ownership, board directorship and TMT participation. The succession some years ago entailed some conflict, making the second generation hesitant to get involved in another succession process.

The board has five members, with two from the first generation, two from the second generation and one employee considered to have highly specialized skills crucial to the firm. The board holds four or five meetings a year. It has started to become more organized, after one member of the second generation (who also holds an operational position) attended courses in board management offered by a professional association for board members. She appears to be capable of strategic governance thinking and acting.

A schema of the board functions in firm C is presented in [Table 3](#).

The board has become more active since the member who received specialized training improved its processes. Monitoring activities are performed and decisions are made, but only after preparation in other arenas. The employee board member provides service as an employee, so there is no service function at the board level and conflict resolution appears to be avoided. The board appears to be a body with an increasingly structured way of inspecting firm development and confirming decisions. The TMT has no governance function, as far as

	Monitoring	Service	Decision	Conflict res	Total
<b>The board</b>					
<b>TMT Meetings</b>					
<b>Spontaneous conversations</b>					
<b>Family gatherings</b>					
<b>Total</b>					

Note(s): Emphasis

No emphasis	
very low emphasis	
low emphasis	
Moderate emphasis	
High emphasis	
Very high emphasis	

Source(s): Authors own creation

**Table 3.**  
Board functions at firm C

we could determine, because it consists of more than just family members, being a larger operationally oriented team.

Spontaneous conversations appear to be the most emphasized governance arena. Three of the major family members holding the central functions of CEO, sales manager and controller often discuss firm development in such conversations, preparing the decisions to be confirmed by the board. Here, some conflict resolution is performed, maybe because the first generation is not generally involved in these spontaneous conversations.

Family gatherings are infrequent and only some decision-making appears to happen at them. This could be due to the dramatic generational transfer that was carried out, implying a tendency to avoid issues that could be conflictual.

Of the functions, service is absent, perhaps because this is a stable business in which the dynamics are in product development, which is largely performed by the employee that is a board member. The board apparently engages in a small amount of monitoring, but the impression is that most monitoring is performed by the person who is slowly developing the board. Decision-making is the strongest function and appears to occur mostly in spontaneous discussions among family members who are present daily in the firm.

In sum, much of the governance of this firm is performed in spontaneous meetings, with family engagement being limited due to a hesitance to address succession. The TMT is not used for governance, probably because it includes many non-family members. In the future, when the member who is slowly developing the board further refines its processes, more of the decision-making function may be transferred from spontaneous discussions to the board.

#### *Firm D*

Firm D has two businesses that are slightly related, in construction and retail. Both businesses are stable in technology but exposed to some political risks. The competition in both industries is moderate. The firm has existed for about 40 years; the founder and his wife have retired from management but not from ownership and board directorship, while their three sons have assumed the top management positions. The firm has sales of about EUR 35 million, about EUR 13 million in capital, a debt-to-equity ratio of 8.09, an ROA of about 0.05, a profit margin of about 0.02 and sales growth of about 380% over the last 10 years. The dividend level is about 11% of equity on average. The variance in these variables over a 10-year period indicates that, although some financial measures have fluctuated, the firm has experienced high growth in sales and capital.

The firm is wholly owned by the family. The first and second generations retain ownership; the first generation has retired to board positions while the second runs the firm, serving in management positions and as directors and the third occupies lower management positions. Of the existing family members (defined by blood or partnership/marriage), 10 are engaged in the firm, giving a nepotistic supply of 77%. Regarding nepotistic impregnation, 50% of the involved family members are involved as owners, 50% as board members and 40% at the TMT level. The genetic relatedness of the board members – that is, the family coefficient – is 0.213, so the board is completely dominated by close relatives (0.5 share = 0.43). The family sends most of its members to the firm, making the family highly involved in the firm. On the other hand, the family presence is not that strong, given that 10 family members in a corporation with nearly 450 employees means that not all employees are exposed to a family member.

The board has seven members, two from the first generation, three from the second generation and two external, non-family directors, one of whom is the board chair. The chair has experience working in a highly international family firm governed by a strongly entrepreneurial person. The board holds five meetings a year.

A schema of the board functions in firm D is presented in Table 4.

The board performs some monitoring functions, including attempts to increase formalization made by the non-family chair (e.g. structured budget follow-up). Some of the family members consider this to be service, and they appreciate the external directors because they create legitimacy in the eyes of other stakeholders. The board performs some decision-making functions, but these are less emphasized than the service and monitoring functions. An anecdote illustrates this point: two of the brothers met at a café to discuss a business opportunity. As they thought that the third brother would have no strong opinion on the matter, they decided to go ahead with the business deal. This deal became known by the local press, which wrote about it. The board chair saw the story in the newspaper and immediately phoned the CEO, who is one of the brothers, and said that these matters should be decided by the board and that board members should not need to read the newspapers to get information about the firm’s strategic decisions. The brothers promised never to do this again.

The TMT is a rather large team, including some family members and many non-family members. It appears to focus solely on management issues, lacking any governance importance. Spontaneous conversations perform both decision-making and conflict-

	Monitoring	Service	Decision	Conflict res	Total
<b>The board</b>					
<b>TMT Meetings</b>					
<b>Spontaneous conversations</b>					
<b>Family gatherings</b>					
<b>Total</b>					

Note(s): Emphasis

No emphasis	
very low emphasis	
low emphasis	
Moderate emphasis	
High emphasis	
Very high emphasis	

Source(s): Authors own creation

**Table 4.**  
Board functions at  
firm D

resolution functions, as do family gatherings. It appears that, when issues are pressing and have to be decided on, the brothers find ways to meet. No other members of the family appear to engage in decision-making at these spontaneous meetings. The three brothers are not equally involved, as one brother is satisfied with his stake in the firm, leaving most of the firm's decision-making to his two other brothers. Issues that could give rise to conflict are dealt with in these spontaneous meetings, preventing them from appearing in the board or TMT meetings.

Family gatherings appear to be an important arena of governance where strategy is discussed and formed. One particular occasion during the company year appears to be important: the families go on trips abroad, typically to places where both traditional female and male interests can be catered to, allowing the brothers to gather in easy conversations and discuss the firm and its strategy. The monitoring and service functions are mostly performed by the board. Decision-making certainly appears in the board meetings, partly because of the external director's ambition to formalize the firm's governance. However, most of the decisions are formulated (although not formally made) in spontaneous meetings and ultimately prepared at the family gatherings abroad.

In sum, the board has some importance, partly due to the owners' realization that having a board with legitimacy can create stakeholder support and discipline the brothers' entrepreneurial spirit. The main governance arena is family gatherings – either spontaneous meetings or the better-planned family gatherings abroad.

### Comparative case analysis

In this section, we present the interpretation of the data concerning the board, the location and emphasis of the board functions through a comparative analysis.

#### *The board functions are scattered*

To a certain extent, the board functions are performed by the studied boards. This is least so at Firm A, which has a "paper board" that performs only a slight monitoring function when the auditor presents the audit results. The boards in the other firms perform board functions to a greater extent but have different emphases on service and decision-making. The only function found in all four boards is monitoring, which supports the claim that the monitoring function is an important board function that is performed by the board itself. The function not found in the boards is conflict resolution, which we analyze later. The service function is found in two of the boards. The studied boards thus perform board functions, but some functions are allocated to and more strongly emphasized in other governance arenas. We conclude that the board is just one of several arenas where board functions are performed, and that the functions performed by the boards differ in type and emphasis between firms.

The first implication of this conclusion is that we must understand why the emphasized board functions differ between the firms and why these functions are located and emphasized differently in different arenas. In this analytical section, we will formulate some propositions concerning the allocation of board functions.

The second implication is that the conclusion downplays the importance of the board, since governance through board functions can be performed in several arenas, not only within the board. Perhaps the efficiency of the firm's governance and thus of the firm is determined by meta-structural governance activity, allocating board functions to different arenas. For example, in Firms C and D, where the older generation served on the board, it was perhaps wise to allocate the main decision-making development outside the board, letting the board be an arena for decision confirmation, reducing the possible conflict that the older generation might create through being engaged in the decision formulation.

It has been claimed that governance mechanisms can complement or substitute for each other (Misangyi and Acharya, 2014). This could be the case with the governance arenas performing board functions, as Gnan *et al.* (2015) found that the family council could substitute for the board in performing the monitoring function. Bodolica and Spraggon (2010) claimed that firms with a family *or* business emphasis will tend to substitute governance mechanisms, while those firms that balance family *and* business emphases will use them in a complementary way. If we interpret the emphasis of a function in only one arena as an indication of substitution and an emphasis of one function in two or more arenas as an indication of the arenas being complementary in performing the specific board function, we obtain the outcome presented in Table 5.

The monitoring function appears to be carried out in different arenas, which act as substitutes for board dominance. On the other hand, the decision-making function is carried out in different arenas that act as complements, usually involving two or three arenas for its execution. These differences could be because monitoring is mainly a backward-looking activity involving few discussions and negotiations, while decision-making (i.e. strategy formation) is a forward-looking activity that involves many more discussions and negotiations and thus is carried out in several arenas. There does not appear to be any clear preference for substitution or complementarity regarding the service and conflict-resolution functions.

Concerning the firms, the arenas complement each other in Firm A, while there is a mix of substitution and complementing at the other firms. Firm B, where the father is the sole family owner, uses several complementary arenas for service, while the board is an important service provider at Firm D, albeit restricted to the service of legitimation and formalization. This may be because the brothers interact mainly with each other, performing a decision-making function through spontaneous meetings and family gatherings and having less need of board services concerning strategy or management advice.

While the question of arenas as complementary or substitute venues for board functions may be important, our limited number of cases makes it difficult to find any pattern that can be abstracted to a proposition or clear generalization.

*The board does not contain but performs a conflict-resolution function*

We found no evidence of the conflict-resolution function in the studied boards. It could, however, be the case that the very existence of the board itself is a conflict-resolution mechanism, even though actions with the specific function of conflict resolution are not performed by the board.

In Firm C, our interpretation is that decisions are prepared in spontaneous discussions between the operationally active family members, with the older generation absent. The decisions are then presented to and, to a lesser extent, discussed by the board. This avoids conflictual discussions with the first-generation founders, while the ideas leading toward decisions can grow through spontaneous discussions – an arena in which we observed conflict resolution. The board appeared to be a mechanism separating decision development and formal decision-making – or, rather, decision acceptance. This separation is a mechanism

Firm	Monitoring	Service	Decision	Conflict resolution
A	Complement	–	Complement	Complement
B	Substitute	Complement	Complement	–
C	Substitute	–	Complement	Substitute
D	Substitute	Substitute	Complement	Complement

Source(s): Authors' own creation

**Table 5.**  
Functions at arenas as  
substitutes or  
complements

of conflict reduction, giving the board itself a function in the firm as a conflict-resolution venue.

In Firm D, our interpretation is that the presence of the board, with its external directors, puts pressure on the three brothers leading the firm to resolve any conflicts before the board meetings, so that the family presents a united front to the external directors. The arenas of spontaneous discussions and family gatherings, in which we identified the conflict-resolution function, take care of possible contentious issues between the brothers. The board with its external directors thus disciplines the brothers to allocate the conflict-resolution function to family arenas, spontaneous discussions and family gatherings.

We conclude that, while no actions with specific conflict-resolution functions are performed by the boards, the boards as such perform a conflict-resolution function.

### *The non-family director's function*

Some researchers (i.e. [Anderson and Reeb, 2004](#); [Brunnering and Nordqvist, 2004](#)), have claimed that family firms should have non-family directors – termed “independent directors” or “professional directors” – on their boards, while others have critically analyzed the positive and negative effects of independent board members on family businesses and their owners ([Ponomareva and Ahlberg, 2016](#)).

Two of our four case firms have non-family directors. In both cases, they appear to be part of a service function – not toward the firm and its managers but rather toward the owners. In Firm B, the dominant owner cannot rely on the small family to discuss governance matters. The board then becomes one of several important arenas providing the service of reflection on the business. The board thus carries out a service function – not for the firm but for the owner. This service function can partly be considered as knowledge use, which [Bettinelli \(2011\)](#) surprisingly found did not correlate with the share of outsiders in active Italian boards. Instead, she found that the interaction between corporate age and the share of outside directors increased knowledge use. Even though Firm B is old, it is not the use of knowledge for the firm that is the service; rather, the knowledge service appears to have been directed toward the owner, helping him in decision-making, partly because of the family situation. It may be that an outside director cannot provide knowledge service to management, as a Firm A respondent claimed, but can contribute to the owners' reflections before making decisions.

In Firm D, the non-family directors perform the service function of the board by creating legitimacy in the eyes of stakeholders, which has been found to be an important function performed by non-family directors ([Gómez-Mejía et al., 2011](#); [Mori and Charles, 2019](#)). However, in Firm D, the nonfamily directors also perform a disciplining function by imposing some discipline – albeit not always successfully – on the brothers' entrepreneurial actions, which are mostly actions on the governance rather than management level. While this might appear to be the conflict-resolution function, with the board mediating between owners ([Anderson and Reeb, 2004](#); [Gabrielsson and Huse, 2005](#)), such is not the case, because the disciplining does not mediate between the brothers as owners but between the brothers and the firm. It has been claimed that a similar conflict-resolution function, termed “arbitration”, will increase with the generational stage of the firm ([Bammens et al., 2011](#)). Our firms show that this could be so, as it was in Firm D, but that it depends on what we will later call “kin strategy” – that is, how much the number of family members engaged in the firm increases with every new generation.

[Le Breton-Miller and Miller \(2008\)](#) proposed a similar notion: that independent directors could perform the function of disciplining owners. However, they believed that this function would entail moderating the owner's growth strategy, in the case of lone-founder owners and moderating harvest strategies, in the case of family firms, especially those in their second generation. The example of Firm D counters that belief, since its independent directors

appear to be disciplining the second generation's diversified growth strategy. The function performed by the board of disciplining the owners is an inversion of governance in which the subject of governance becomes subjected to governance – that is, becomes the object of governance. Governance is thus not only unidirectional but can also be bidirectional.

In sum, in both firms, the non-family directors appear to direct their attention toward the owners, providing them with service and discipline and not primarily toward the firm and supporting the CEO or TMT. When it includes non-family directors, the board can thus become a device helping the owners perform their governance; that is, the non-family directors act as servants not of the firm but of the family owners. If they have any governance effect, it is not mainly on the firm but on the owners – that is, as part of bidirectional governance. As noted in some of our cases, however, this service function can be provided by others (Kubiček *et al.*, 2021), which reduces the occurrence of non-family directors on the board, since the board is but one supplementary arena for advising the owners.

#### *The separation of kin: kin strategy*

We propose that the kin structure of the family engaged in the family firm influences the firm's arenas of governance and how they are utilized. It is known that family opportunism arises when more kin members belong to the firm – that is, with family expansion through generational succession in which more kin members become available and engaged and several nuclear families appear in the extended family whose individual members tend to promote the interests of their nuclear families at the expense of the extended family (Van Aaken *et al.*, 2017). This expansion in ownership has been found to influence the firm's financial performance, with family ownership dispersion being negatively related to ROA (De Massis *et al.*, 2015). It has also been found that, when there are very close ties between dominant owners (i.e. they are married), the firm has a higher profit margin, ROA and survival rate, but also a lower rate of investment and growth (Belenzon *et al.*, 2016). Family structure reflected in the ownership structure thus influences governance and the firm.

It has been found that, with increasing firm age and increasing generational stage, the number of kin members increases, as does family opportunism (Bammens *et al.*, 2011; Felício and Galindo Villardón, 2015), implying that there are different governance needs (Bammens *et al.*, 2008). In our cases, however, we noticed that family opportunism can be managed through a strategy that addresses the family structure involved in the firm. We call this *kin strategy* which is an effort to address family opportunism by managing the number of kin members involved in the firm.

Firm A has five siblings in the same generation. Two of them have not been involved in the firm for many years, as owners or employees. The third sibling has separated from the firm, due to disagreement about the firm's development. Thus, two siblings remain present in the firm, with very little (if any) conflict. This separation of kin members from the family firm context could represent a third alternative to the two strategies of integration and segmentation included in the concept of boundary management (Bodolica *et al.*, 2015).

An alternative to this focused kin strategy would be to have all kin members engaged, for example as owners, and to organize their governance by introducing another governance arena, such as a family council. This could be used as a way to keep the family engaged yet at a distance, if it would be too costly and too conflictual to separate kin members from the firm by buying out their ownership shares. None of the four studied families is using such an arena. Firm A does not need to, since it has separated kin members, reducing the complexity. Firm B has no involved kin members, and Firm C has only two kin members. Firm D, on the other hand, has three kin members and, as we noted earlier, the board can be a means to discipline them. However, the family has organized a specific governance arena with conflict resolution as one function – namely, the family trips abroad. That arena could be regarded as

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an alternative to the family council arena. Thus, the kin structure of the family creates kin strategies that influence the governance arenas.

#### *The level of board activity and the importance of the board in the governance structure*

The level of board activity differed among the four firms studied, being very low in Firm A, low in Firm C, moderate in Firm B and fairly high in Firm D. Following [Basco and Perez Rodriguez's \(2009\)](#) notion that governance is a result of balancing the family and business, we note that the largest firm, Firm D, which has a strategy of diversification and growth, also has the most active board – that is, their board performs more of the board functions. This firm puts greater emphasis on the board, with board activity being mainly created by the non-family directors, who appear to have been recruited out of legitimacy concerns. Thus, *business conditions* such as size ([Bettinelli, 2011](#); [Fiegener, 2005](#); [Miller and Friesen, 1984](#)) appear to be possible drivers of board activity levels.

The moderate activity at Firm B originated in the owners' need for business advice from the non-family directors, partly from the CEO but mainly from the non-firm directors. In this case, it appears to be the small size of the family, which lacks the capacity to supply competence, that drives the recruitment and activity of the board. Thus, *family size* influences the level of board activity and its functional emphasis.

In Firm A, which has a passive board, the nepotistic impregnation of the family is rather high, as in Firm D, but the kin strategy differs, with Firm A having a focused kin strategy that creates a high level of consensus among family members, meaning that there is no need for conflict resolution in the board as such, as in Firm D, and therefore no need for a board. Firm C has low board activity but appears to have increased the formalization of its board meetings. This was induced by a director who has reflected on governance and attended courses in board management, with the latter being offered by an organization that supports corporations in their recruitment of non-family directors. The increased formalization of Firm C's board and its subsequently increased level of activity were created through interaction between an individual's drive for more orderly governance and the solutions offered by an organization promoting normative institutional pressure. This change was made with the aim of including a non-family and non-firm director – that is, a so-called professional director. Thus, *normative institutional pressure* influences the activity of the board ([Ponomareva and Ahlberg, 2016](#)).

This finding indicates that the utilization of a board for governance stems from the family, the family's constitution, the family's kin strategy and governance strategy, the board composition (which is partly due to normative pressure) and the business conditions of the firm.

Although these findings are partly in accordance with those of [van Aaken et al. \(2017\)](#), who found that the board increases in importance with successive generations in the firm and with a larger firm, we show that it is not the board activity as such that increases; rather, the activity increases because of an increase in specific functions. These functions are not determined so much by the generational stage as they are by how the family deals with the generations through its kin strategy.

We do, however, find support for [van Aaken et al.'s \(2017\)](#) conclusion regarding economizing on governance costs: “it makes no sense for firms to establish more governance mechanisms than they actually need” (p. 837). Therefore, normatively demanding an active board disregards the drivers of board activity and how they are managed by the agents of governance. Simply put, family owners tend to economize on governance.

#### *Wisely using the board functions and the board*

Two events from Firm A and D illustrate levels of institutional flexibility toward the board as an institution. The main bank of Firm A wanted to place a bank representative on the board.

This occurred during a time of financial trouble for Firm A, albeit not to the extent of constituting financial distress. The bank appeared to want more continuous information, in order to monitor the firm more frequently and safeguard its loans. Other monitoring possibilities were also available, such as frequent meetings with the CEO – who was also one of the main owners – or frequent meetings with the CFO in the presence of the firm’s auditor. By including the auditor, the bank would be able to obtain independent judgments on information from an independent party with internal information.

The family reacted strongly against the suggestion and decided to change its main bank. Giving the bank a board seat would entail activating a dormant governance organ – that is, the board – that had no function in the firm. Doing so would risk changing the governance of the firm from the family’s nebulous governance to more formalized governance. The family did not perceive any misgovernance of the firm. The family members interpreted the firm’s financial problems as being due to market conditions, not bad governance and saw no need to activate a new governance organ. The CEO’s argument against including a banker was that the firm’s board did not need a banker who lacked experience of the industry.

The bank was acting in adherence with the hegemonic idea of the board as a governance center of the firm. As [Johannisson and Huse \(2000\)](#) observed, banks tend to promote outside directors. Trapped in the idea of the board as the governance arena, the bank could not imagine alternative arenas in which to satisfy its need for information. It paid the price for its institutional inflexibility by losing the firm as a customer.

Institutional flexibility was displayed by Firm D. The brothers in Firm D saw that the board could perform certain functions, especially the service function of creating legitimacy by imposing some order on their governance. At the same time, they were unable or perhaps unwilling to give up their discretion as entrepreneurs. They had contradictory intentions of disciplining their discretion while retaining it. The governance of the firm entailed continuous negotiation concerning the discretion of the brothers as entrepreneurs, as their desire for legitimacy and governance discipline clashed with their entrepreneurial need for discretion. They were trying to obtain a governance function that was in conflict with their entrepreneurial intentions. This conflict between function and intention was continuously addressed through negotiations, such as by apologizing to the personification of the board functions – that is, the chair. The chair could have stressed the importance of board functions in order to gain the legitimacy conferred by a well-functioning board. By playing the “legitimacy card”, the chair could have empowered the board. He did not play that card, however, but accepted the apologies. He thus accepted the position he was given as one of trying to impose reasonable discipline on the brothers without reducing their entrepreneurial spirit. This wise institutional flexibility could be attributable to his earlier employment experience at a firm with a distinctly dynamic entrepreneur as its leading figure.

This institutional flexibility reflects the insight that efficient boards must achieve a balance between necessary and actual task performance. Again, we make the simple claim that such efficiency entails economizing governance, which here implies economizing on the board.

### **Our findings and their implications for research**

We have five findings.

- (1) The board is but one of several arenas where board functions are performed.
- (2) The functions performed by the board vary in type and emphasis.
- (3) The non-family directors in a family firm serve the owners, even sometimes governing them, in what we term “bidirectional governance”.

- (4) The kin strategy of the family influences their governance.
- (5) The utilization of a board for governance stems from the family (together with its constitution, kin strategy and governance strategy), the board composition and the business conditions of the firm.

The finding that the board is but one of several arenas in which board functions occur aligns with the frequent presentation of family firms as corporations with blurred and ambiguous boundaries, especially between the family and the firm (Basco and Perez Rodriguez, 2009). Our findings confirm the plasticity of such boundaries – in our case, between the board and other governance arenas. The other arenas we found do not exhaust the list of alternative arenas for board functions, since we studied only four cases, but those that we did find have been found in other studies as well (Nordqvist *et al.*, 2014).

Other researchers, such as Blumentritt (2006), Corbetta and Tomaselli (1996), Fiegner (2005) and Nordqvist (2012), have made the same observation anecdotally. However, our finding originates in a structured induction through which we also found antecedents to board function location. This was made possible by converting board functions into governance functions, thereby challenging the supremacy of the board and converting it into just one of several governance arenas. In accordance with the quotation from Zappa at the start of this paper, we have shown that it is the theory that has duties toward the data, not the reverse. While the claim that the board is a powerful corporate governance mechanism is legally true, it is by no means true in praxis – at least, not in our four companies, in which the power is divided among several arenas.

The second set of findings concerns the board functions that are actually performed by the board. We found that only the function of monitoring occurred in all the studied boards, whereas the function of conflict resolution was not found in any of the four boards. Monitoring appears to be a legal requirement, since that was the only function found in the board of the firm that clearly had only a “paper board”. Concerning conflict resolution, we found that the existence of the board in itself performed a conflict-resolution function by encouraging actors to reach agreement before board meetings or to arrange proposals in a manner that avoided difficult conflicts. This finding could be specific to the empirical material created in a conflict-avoiding culture such as Sweden. It could also be fostered by the institution of a family firm, in which family altruism (Lubatkin *et al.*, 2005) is present, including bonds and unity. In boards with both family and non-family members, there could be a tendency for family members to show a united family front, thereby pushing the conflict resolution function out from the arena of the board.

The third set of findings concerns the composition of the board, especially the presence of independent non-family directors. We found that non-family directors served the owners, even sometimes governing them, in what we term “bidirectional governance”. The existence of bidirectional governance is by no means an original observation, as the client effect in which firms “dress up” to attract specific types of investors (Oxelheim and Randøy, 2005, 2013) can be claimed to be bidirectional in function. The difference is that the client effect implies governance of the *type* of owner, while our bidirectional governance implies influence over the owner. This finding strikes at the heart of the dominant agency theory, as it not only calls the delegation view of the theory into question – that is, the delegation chain of rights, from the owner via the board to the CEO – but also suggests that governance can be directed toward those actors that are normally assumed to direct the governance.

Our finding of bidirectional governance appears to be aligned with the stewardship view, in which directors act as stewards. However, the stewardship view tends to regard directors as stewards of the corporation, with the aim of balancing all stakeholders’ interests. In contrast, we found that the directors worked for the owners’ benefit, providing service to them – sometimes

by disciplining them so that they did not create confusion in the firm. The directors thus worked very distinctly as servants of the owners, including disciplining them. While this finding casts doubt on the independence of independent directors in family firms, it is their very independence that makes them efficient service providers for the owners and an effective disciplining device of and for the owners. To put it simply, these servants partly discipline their master.

The promoters of independent directors have stressed the capacity of such directors to perform a service function for the firm. Family owners' reluctance to include independent directors has been explained as being due to the family goal of socio-emotional wealth (SEW) (Gómez-Mejía *et al.*, 2007, 2011). This concept includes the family's dominance of the firm, where the utility of the board's service appears to be valued less than its threat against family control. Nevertheless, we find that service can be provided in different ways and by different actors, such as through spontaneous conversations, as in Firm B, or through an auditor, as in Firm A. In fact, the auditor appears to perform not only a monitoring function in family firms but also an advisory function (Collin *et al.*, 2017; Reddrop and Mapunda, 2015).

The presence of independent directors providing the service of legitimacy to a family firm could imply that the decision-making function of that firm has been pushed out of the board – for example, to cafés, as in Firm D – thereby retaining the SEW of control. Nevertheless, independent directors simultaneously provide (to a certain degree) the service of supporting and disciplining the owners. Thus, the independent director can play a paradoxical role in the family firm, which demands (like our interpretation of the independent director in firm D) a wise independent director who understands and respects the dynamics of the SEW.

The fourth set of findings concerns the owners. We found that it is necessary to consider the structure of the owner. This became especially clear when we found that the kin strategy of a family influenced its governance. It is often assumed that agency problems arise when generations pass, due to an increasing number of family members and a greater distance in family ties (Voordeckers *et al.*, 2007; Bammens *et al.*, 2008, 2011) – that is, a lower family coefficient. Our case analysis indicates that this cannot be assumed but must be empirically observed, since the owner's constitution is partly a result of the kin strategy that is implemented.

The fifth set of findings concerns the board within the overall governance system of a corporation. We suggest the proposition that the utilization of a board in the governance of a family firm is influenced by the family, its constitution, its kin strategy and governance strategy, the board composition and the business conditions of the firm. This finding implies the necessity of considering the heterogeneity of the family firm.

Family firm studies originated from the notion that family firms represent a distinctly different form of business; however, such studies have recently focused on the heterogeneity of family firms (see, e.g. Arteaga and Escribá-Esteve, 2021). The important dimensions of heterogeneity originate from the basis of the family firm, the family, its structure and its relationships with the firm. At least three approaches for dealing with this heterogeneity have been presented. One is ideal typification, in which dimensions of heterogeneity are used to classify family firms into distinct forms (Nordqvist *et al.*, 2014; Ponomareva *et al.*, 2019). Another is the configurational approach, which uses a fuzzy-set qualitative comparative analysis that is capable of finding setups with the same factors but different values, thereby being more dynamic than the ideal type approach (Kraus *et al.*, 2016; Hughes *et al.*, 2018; Hsueh *et al.*, 2023). The third approach is to focus only on the factors influencing heterogeneity. Daspit *et al.* (2018) give the following advice: "... until a better understanding of those dimensions that matter the most is reached, researchers should be aware of the possibilities and avoid the tendency to prematurely aggregate several dimensions in a way that hides potentially insightful findings" (p. 296).

In this paper, we followed the third approach by characterizing family firms according to their nepotistic supply, nepotistic impregnation, family coefficient and generation. We find that the family in a family firm has a kin strategy that creates diversity in the family structure. This

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influences the family governance of the firm, creating heterogeneity in the family firm's allocation of board functions to different arenas and, ultimately, in its utilization of the board.

### Limitations

While our ambition was to follow Zappa's (1939) advice to let data have the rights and theory have the duties, we used a case study methodology that, according to Leppäaho *et al.*'s (2016) categorization, is a positivistic approach. The data had restricted rights, since we had a preconception that structured our induction, and we interpreted the case study actors' actions, instead of trying to understand their understanding, as is done in an interpretivist case approach. To fully implement Zappa's advice, it would be necessary to evaluate our interpretations by applying an interpretivist case approach.

Another limitation is our size criteria, since we only considered medium-sized firms. With this criterion, we probably avoided most of the strong normative pressure that can be totally avoided by very small firms but must be adjusted to by very large firms. It could be the case that a study that selects cases with the intent of having a considerable size variation would find that the board functions become more frequent and have a stronger emphasis on the board arena with increasing size.

Finally, one needs to acknowledge the different biases that could have influenced our analysis and interpretation of the empirical material. Yet to alleviate some of the risks associated with such biases the authors team worked in close collaboration with each other and any disagreements on interpretation were solved by consensus.

### Practical implications

The normative pressure from consultants and researchers to activate the board and to include independent directors is very strong. According to our findings, however, the normative advice to the family is to consider such advice with a strong critical attitude. Inspect where the actual governance functions are performed in the firm today and ask: will our family and our family firm do better with a more active board and more independent directors, or will our SEW performance decrease with higher governance costs? Our findings indicate that a passive board does not imply that the board functions are passive.

According to many promoters of the board, "the very existence of the board as an institution is rooted in the wise belief that the effective oversight of an organization exceeds the capabilities of any individual and that collective knowledge and deliberation are better suited to this task" (Forbes and Milliken, 1999, p. 490). Our advice to independent directors develops this understanding by referring to the flexible action of the chair in firm D, indicating that the board's duty is to promote the corporation and to support the owners, which may sometimes entail less board action. Although there is balancing work to be done within the board, there is also balancing work to be done between the board and other governance arenas, as the independent director must have institutional flexibility in order to support the firm and the owners, as in our case, in order to preserve the entrepreneurial spirit of the active owners.

The board receives a great deal of attention in society today, probably due to the assumption that the board is a nest of power with a huge influence on the corporation and thus on society. This attention has moved from debate to actual influence on the board through legislation. Our findings suggest that the board is not always a powerful arena; more importantly, normative and legislative pressure on board composition will influence the allocation of board functions. For example, the legislation of independent directors may cause a migration of the decision-making function away from the board of the family firm.

## Conclusion

There is a gap between normative content in theories and praxis concerning the board (Fiegener, 2005). This creates a theory-praxis gap, with researchers and consultants having strong opinions about the board and how it should work, while praxis deviates from these normative opinions, evoking the judgment that the board is “a rather token, underutilized formal body” (Corbetta and Tomaselli, 1996, p. 418). By relying on Zappa’s (1939) understanding of the relation between theory and data direct the research, we have found that, when board functions are performed, they are localized in a governance system in which the board is but one arena and in which bidirectional governance can occur. This is due to, for example, the constitution of the family. Although the prophets of the board condemn this practice as the underutilization of the board, it could represent a rational economizing strategy of governance that benefits both the owners and the firm.

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