

Corporate Governance Within Family-Owned Businesses

Msc. Thesis

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October 2012



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For quality of life

Corporate Governance Within Family-Owned Businesses

*How corporate governance is organized within
family-owned businesses*

Msc. Thesis

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October 2012, Wageningen

Preface

This master thesis is nearly the final part in order to successfully complete the master program Management, Economics and Consumer Studies. And by that it implies that I almost finished my life as a student.

This report will give insights in different aspects of corporate governance in family-owned businesses. Based on my personal background and several courses I followed in the past two years my interests were attracted by corporate governance in family-owned businesses.

I would like to thank some people, who helped me during the whole process of writing this master thesis. First of all I want to thank my supervisor from Wageningen University, Dr. Jos Bijman, for his time, guidance, support and feedback. Furthermore I want to thank the people I have interviewed at Den Ouden for giving me the opportunity to gain insights in their organisation and also for their time and cooperation. In addition I also want to thank the companies who have taken time to participate in the questionnaire. At last I would like to thank my family and friends for their encouragement and support in the past ten months.

For me personally it has been a very interesting and informative period in which I learned more about my own capabilities and points of improvement. In addition this has led to better insights and ideas for my future job career.

Finally, I hope that you will enjoy reading this Master thesis.

Jeroen Verbruggen
Wageningen, October 2012

Management Summary

Family businesses have always been an interesting topic for academic researchers due to their increasing importance for the economy. Both, family businesses and corporate governance issues are currently receiving considerable attention and must be seen as two separate constructs with a certain connection to each other. Therefore it is necessary to embrace a perspective on corporate governance from a family business perspective. In order to get a better view of the relation between a family, its business and corporate governance, the Three-Circle Model of Gersick, Davis, Hampton and Lansberg (1997) can be a useful tool.

This research aims to answer the following problem statement: *“Why are family-owned businesses implementing elements of corporate governance within their business and how are those elements of corporate governance organized in their company?”*. To answer this question a literature study, a case study and a survey were conducted with owners/directors of medium and large sized family firms from different sectors.

From existing literature it becomes clear what corporate governance exactly means and why this topic becomes so important over the last years. Several definitions are presented in literature but in general they are the same. Corporate governance is about management and control, about responsibility and accountability and transparency within a firm (Hooge, 2005).

Due to large accounting scandals in the past intervention by governments was necessary to prevent other businesses in making the same mistakes. In 2003 in the Netherlands the commission Tabaksblat presented a code with standards and requirements for listed companies.

From the code Tabaksblat and two other codes eight elements of corporate governance are extracted:

- Mission statement / Vision
- Operational and Financial targets
- Risk management
- Internal control
- Accountability
- Monitoring
- Transparency
- External experts

Academic literature acknowledges that, generally speaking, companies can have two systems: a one-tier board structure or a two-tier board structure. The one-tier board structure is mainly applied in so called Anglo-Saxon countries such as the USA, Canada and the U.K. Executives and non-executives directors form together the a board which is normally chaired by the Chief Executive Officer.

In the Netherlands but also in other European countries companies consists of one management body which is the board of directors. Besides, companies who comply with the characteristics of a structure regime and listed companies are obliged to install a supervisory board. This supervisory board is monitoring the board of directors on behalf of the shareholders. Members of the

supervisory board are independent commissioners chosen by the shareholders. This dual corporate governance is called in literature the two-tier board model.

A family-owned business can be described as a system that contains three independent but overlapping subsystems. These subsystems are; Business, Ownership and Family. These three subsystems create seven roles, which all are related to the family business. Each business moves through a series of stages over time. In a family-owned business this means for instance that the company develops from a controlling owner to a cousin consortium. The number of family members is increasing so the relation between them is changing. At this moment the need for a more formal management structure is growing. Family businesses are struggling to find the right structure for their business which also fits the principles and values of the firm. According to Matser (2010) an advisory board could be a solution. The tasks and authority of the advisory board can be reported in the article of association of the family. The advisory board is mainly acting as an external sounding board for the board of directors. They can give advice when important decisions have to be made.

The results of this research indicate that family-owned businesses are implementing elements of corporate governance to ensure the continuity of the business. Clear rules and agreements prevent problems now and in the future and reduce the probability that family issues harm the business. These rules and agreements must be reported in the articles of association especially addressed to the business and the family. In this document, agreements about succession and the division of shares can be registered.

An additional governance board such as a supervisory board or an advisory board can create an environment in which open discussions with independent commissioners can take place. Main reason for most of the companies who participated in this research to implement an additional governance board is because they want a sounding board. To improve the decision making process the board of directors need counter arguments and unasked opinions from strongly involved external experts. Further an additional governance board can also contribute to a healthy family atmosphere with always the continuity of the business in mind. The supervisory board or advisory board can have a decisive contribution in family disagreements. They act as a family manager but the business will always be on the first place. Focus is in many family-owned businesses on the continuity of the firm. External independent advisors give in many cases advice regarding companies about succession of the family business to the next generation.

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Chapter 1 Introduction

This report is a master thesis, written in order to graduate from the masters programme Management, Economics and Consumer Studies. The purpose of this thesis is to gain more insight in the relation between corporate governance and family-owned businesses.

The remainder of this first chapter will consist subsequently of the problem indication, the problem statement, the research objective and the research questions. Finally an overview of the structure of this thesis will be given.

1.1 Problem indication

In the past years the importance of family businesses for the Dutch economy has become more and more clear. In several articles and studies they are characterized as the engine of the economy (Gulzar and Wang, 2010). According to Flören (2002) more than 55% of the companies can be characterized as a family firm. In this figure companies in the agricultural sector are not included. This means that the total percentage of family firms including companies in the agricultural sector is much higher.

According to Flören et al. (2010) the European Commission stated that family firms are responsible for the highest share of job creation and job retention. This results in a share of approximately 50% of the national GDP in the Netherlands. Next to these facts the stabilizing factor of family-owned businesses in the Dutch economy is of great importance. Continuity of the firm is in almost all cases more important than growth and profit maximization. This makes that family-owned businesses have less problems during periods of recession and are able to keep their employees, instead of firing them (Flören, 2002).

These facts according family-owned businesses make it interesting to take a closer look into one specific area of management within family controlled firms which is called corporate governance. Although both family businesses and corporate governance issues are currently receiving considerable attention, they must be seen as two separate constructs while they are also related to each other. According to Bartholomeusz and Tanewski (2006) the term *Corporate Governance* is normally associated with large companies who are acting on the stock market. But current research shows that non-listed companies are dealing with different types of corporate governance structures as well (Gulzar and Wang, 2010). Where listed enterprises are obliged to inform their shareholders about the decisions to be made and the direction to take, non-listed (family) businesses do not have this obligation.

In order to obtain a better view of the relation between a family firm, corporate governance, and its business, the Three-Circle Model (Figure 1.) of Gersick et al. (1997) provides a useful tool. This model depicts a family firm as a complex system, and shows the existence and overlap of three interdependent subsystems in a family firm.

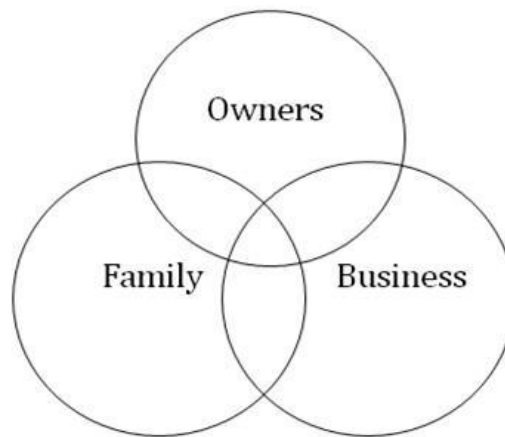


Figure 1. Three-Circle Model (Gersick et al., 1997).

These subsystems are business, owners, and family. The three circles divide the whole figure in seven sectors, and each individual related to a family business is located in one of the spaces in this model, depending on the connection that member has with the firm. For instance, an owner who is a family member and also works in the firm would be in the central sector. The model is an excellent instrument to understand the different roles in a family business. The overlapping nature of the circles can be a strength of the family business, but it can also lead to conflicting interests in the family for instance between father and son. However the static representation of this model is a limitation. In practise, all three subsystems are constant in motion, therefore this model is transformed into a Development Model (Figure 2.). In this model the subsystems move through a series of stages (Gersick et al., 1999). For instance the ownership system changes from the Start-Up stage via the Expansion/Formalization to Maturity. This model is interesting to see different aspects of the family firm develop over time (Gersick et al., 1999).

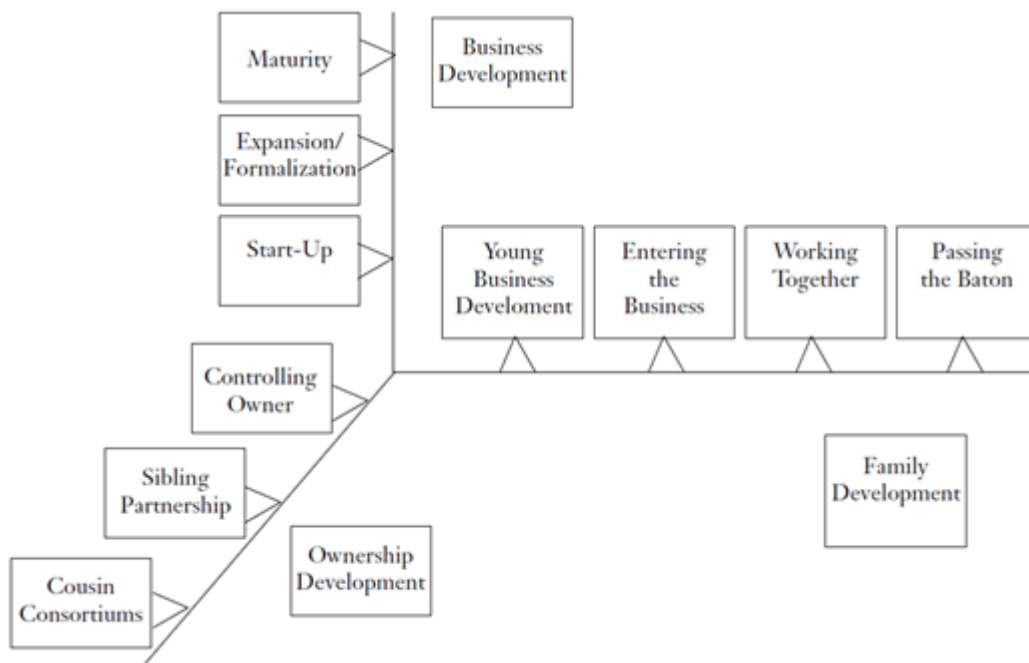


Figure 2. Development model (Gersick et al., 1999).

Because of the family dimension in the company, it is a challenge for family businesses and moreover more complex than for other businesses to implement a good corporate governance structure. According to Pieper (2003) family businesses are sensitive to the necessity of a solid governance structure for the continuity of both the family and the business over time. This makes the discussion on corporate governance vital nowadays. The growing interest in corporate governance has been stimulated by national governments but also by equity buyers. They are basing their investment decisions in the first place on the financial situation of the company but also more and more on companies records on corporate governance. In this case the challenge for investors is to measure good and bad corporate governance (Pieper, 2003). These findings concern mostly listed firms, however non-listed firms such as small family businesses, which are not required to adopt a corporate governance code, nevertheless decide to follow stricter corporate governance standards. A recent study by Robert Half Management Resources discovered that around 58% of CFO's in non-listed companies with more than 20 employees said they were seriously thinking about implementing stricter governance rules (Pieper, 2003 referring to Investor Relations Business, 2003).

1.2 Problem statement

The importance of a stable family-owned business is increasing for the Dutch economy, especially during a recession. To hold this position in the economy and to stay a reliable and transparent partner for employees, investors and suppliers it is important to understand the role of corporate governance within family-owned businesses.

The family firm has a special position within the pool of different firm types because of their distinctive organisation regarding ownership, leadership and evolutionary dynamics (Van den Berghe et al., 2002). Damen (2012) refers in her paper to a research conducted by the 'Centrum voor het Familiebedrijf' (centre for family-owned businesses active in practise-oriented research in the field of family businesses) which found that only 10% of the family businesses survive the third generation.

According to Gulzar and Wang (2010) measures to implement good corporate governance structures are needed for challenges regarding ownership and the long term success of the business which also includes, transferring the family business to the next generations.

Research on corporate governance in listed companies has proved that more attention to corporate governance can improve the image of the company (Becht et al., 2003). Next to listed companies the attention for corporate governance is spreading fast to other types of companies. In 2005 a first draft of a corporate governance code for Dutch cooperatives was composed. This code is adjusted in 2011 because the view on good corporate governance has changed over time (Galle, 2011). Recently, the problems at Vestia, a Dutch semi-public housing corporation were broadly exposed in the news. Due to bad governance billions of euro's are lost and so, more billions, probably raised from taxes, are needed to save this semi-public institution.

According to Lane et al. (2006) family businesses must create an atmosphere of trust and transparency among family members. This also counts for the decision making process in family-owned businesses. Transparency regarding decisions which are made by the board of directors is important to prevent family members from forming strong emotions and suspicious beliefs towards other family members. The belief that governance is necessary for the long-term survival of the family business as well as to protect the interest of shareholders and stakeholders remains a debate with little empirical research (Van den Berghe et al., 2002). Referring to the importance of the family-

owned businesses it is interesting to study the relation between corporate governance and family firms.

1.3 Research objective

According to Verschuren and Doorewaard (2010) the research objective describes the motivation to do the research and the possible achievements of the research.

The research objective of this project is to contribute to insight in the meaning of corporate governance within family-owned businesses and increase the understanding of how and why it is organized to achieve good corporate governance by combining theoretical and empirical evidence.

1.4 Research framework

The research framework is used as a tool to clarify the research process. Figure 3 shows the schematic presentation of this research including the steps to achieve the research objective.

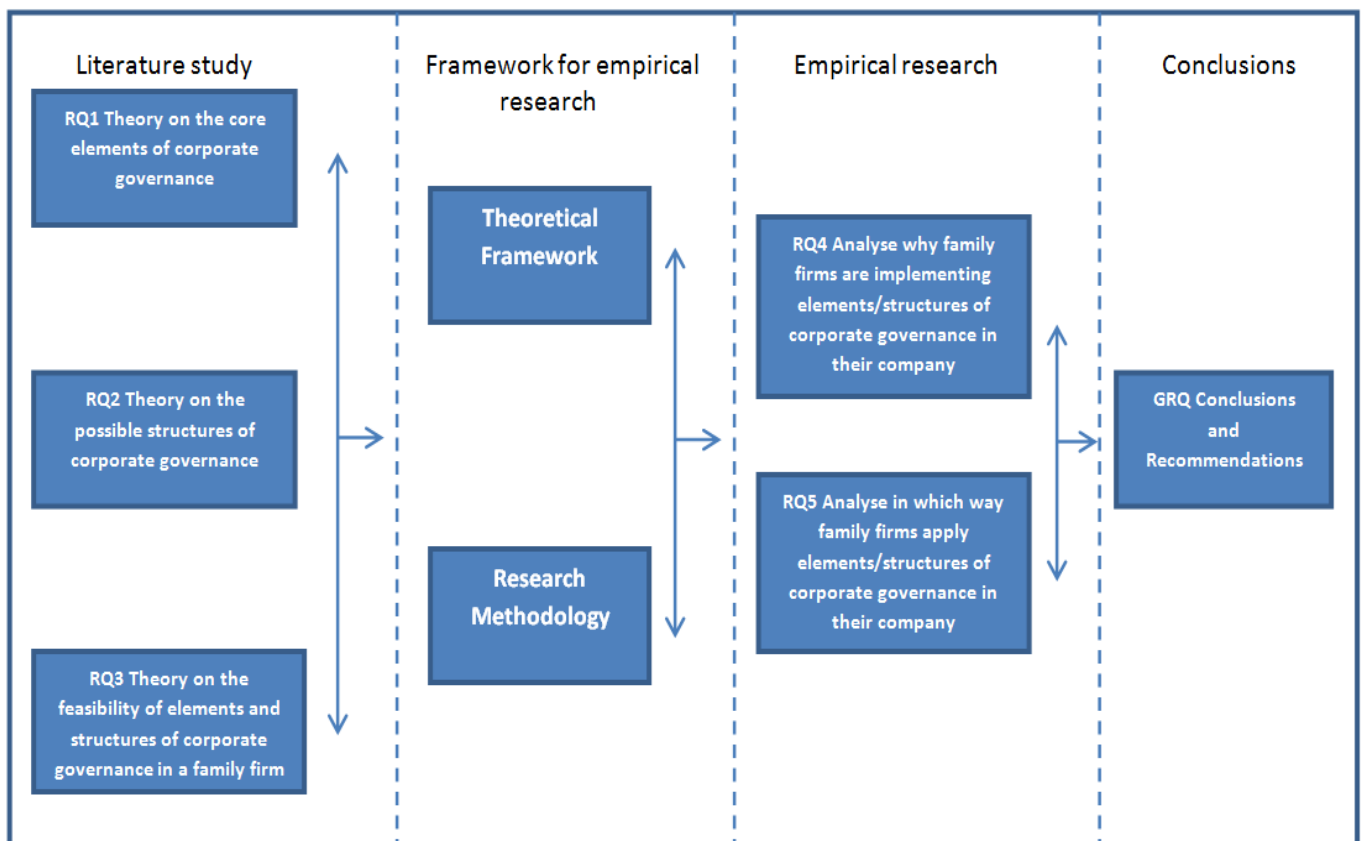


Figure 3. Research Framework.

1.4.1 Literature study

The first phase of the research is a literature study. The goal of this phase is to design a theoretical framework. The theory on the elements of corporate governance and the possible structures of corporate governance were studied next to the theory on the feasibility of those elements and structures of corporate governance within family-owned businesses. The theoretical

framework, based on the literature, together with the research methodology were the input for the empirical research.

1.4.2 Empirical research

In the second phase the results from the literature study has been processed into a questionnaire to acquire the data for the empirical research. Family-owned businesses who are member of 'Brabantse Familiebedrijven Genootschap' were requested to fill in the questionnaire. The request to fill in the questionnaire was addressed to the CFO of family-owned businesses because the direct email addresses of those people were obtained. The focus of the questionnaire is on the current situation related to corporate governance to see how it is organized and why. Further a case study was conducted to gain more insights and gather information on corporate governance and to increase the understanding of it in family businesses. The reason for this empirical phase is to gather information in order to be able to give answers to research question four and five. Together with the results from the literature study, conclusions were drawn and recommendations have been made towards the family firms.

1.4.3 Concluding phase

In this phase conclusions were drawn based on the theory and the analysis of the results of the empirical research. It should gain more insights in why family-owned businesses are implementing structures of corporate governance and how they do this. Based on the conclusions, recommendations were made towards owners, directors and all other stakeholders of family businesses.

1.5 Research issue

According to Verschuren and van Doorewaard (2010) the research questions must be formulated in a way that they can be answered during the research project.

General research question

Based on the issues described in the introduction and already acquired knowledge on family firms and corporate governance renders the question how these two concepts fit together. The general research question is divided into several research questions. The answers of the research questions are supportive to answering the general research question. The general research question of this project is:

Why are family-owned businesses implementing elements of corporate governance within their business and how are those elements of corporate governance organized in their company?

Research questions:

RQ1: What are the core elements of corporate governance?

RQ2: What are possible structures of corporate governance?

RQ3: Which elements/structures of corporate governance are feasible in a family-owned business?

RQ4: Why are family-owned businesses implementing elements/structures of corporate governance in their company?

RQ5: How do family-owned businesses organize the implementation of elements/structures of corporate governance within their company?

1.6 Structure of the thesis

As this chapter serves as an introduction, in the following chapters answers are given to the research questions. Chapter 2 deals with the theoretical background of corporate governance and the core elements of corporate governance in family-owned businesses. Chapter 3 shows the different structures of corporate governance extracted from the literature. In chapter 4 the relation between corporate governance and family-owned businesses will be presented. Next chapter, chapter 5 explains how the research has been conducted, it provides the research methodology and provides arguments for the validity and reliability of this research. The results of the gathered data are summarized in chapter 6. Chapter 7 includes the analysis of the results and show answers to the research questions. Finally, in chapter 8 the conclusion of this research is presented. Additionally this chapter contains recommendations for further research and limitations of this study.

Chapter 2 Corporate Governance

This chapter will examine the theoretical background of corporate governance. The chapter starts with defining the concept corporate governance and the situation regarding corporate governance rules in the Netherlands. Further the economic perspective and related theories will be discussed. The last paragraph will explain the core elements of corporate governance extracted from different codes with respect to corporate governance.

2.1 Corporate Governance

Companies are coping with corporate governance already for a long time. When the VOC (Verenigde Oost-Indische Compagnie) was founded in 1602 as the first listed company of the world it starts to become an interesting issue. The leaders of the VOC refused to pay dividends on the agreed time and rewarded themselves in an extreme way. This all was happening at the expense of the shareholders. After 20 years and a lot of arguing the leaders of the VOC agreed upon a new covenant (Cools, 2009). Later in history more examples of bad corporate governance showed the importance of good control and transparency within a firm.

2.1.1 A definition of Corporate Governance

There are several definitions of Corporate Governance. In Great Britain the Cadbury Code describes the system of corporate governance in the following way: 'the system by which companies are directed and controlled'. The OECD defines it in more or less the same way: 'Corporate governance relates to the internal means by which corporations are operated and controlled'. (Schwarz and Bisschop, 2004). The code Tabaksblad which is implemented by the Dutch government is giving the following definition: 'Good entrepreneurship as well as the control on it' (Santen et al., 2006). All definitions are more or less the same which makes it easy to come up with one definition of corporate governance. According to the commission Tabaksblad the general acceptable definition reads as follows: 'Corporate governance is about management and control, about responsibility and accountability and transparency within a firm (Hooge, 2005). This last definition will be used in this research.

Corporate governance can be seen as a system that makes sure that companies are taking the right direction. This system is taking care that rights and responsibilities are divided in a correct way over different institutions, in- and outside the company. These institutions are for instance the board of directors, the shareholders, the employees and the board of commissioners. In the end the purpose of corporate governance is to create more transparency in the decisions and actions by the board of directors towards shareholders and other stakeholders (Hooge, 2005).

2.1.2 Evolution of Corporate Governance rules in the Netherlands

In October 1996 the committee Peters under supervision of Jaap Peters presented a first version of the Dutch Corporate Governance Code. This code contains recommendations to improve the transparency regarding the decisions made by the board of directors, increase the responsibility and give shareholders more control. It was a self-regulating instrument.

Core elements in this first code were: Transparency regarding the decision made by the board of directors and the accountability with respect to the results of the business. Further the purpose was

to increase the power of individual shareholders. This should be achieved by improving the influence of the shareholders on for instance decisions regarding strategy (Van Bekkum et al., 2010). The basis to achieve this purpose were the 40 recommendations by the committee Peters. After elaborate discussions on the first draft of the code the committee Peters presented the final code in June 1997 which carries the title: 'Corporate Governance in Nederland – De Veertig Aanbevelingen'. As already said, in this code the committee offered recommendations to improve the governance in Dutch companies (Hessels and Hooge, 2006). In 1998 the commission Corporate Governance published a report about the compliance of companies with the code. The main conclusion in this report was that most of the companies did not make any alterations in their corporate governance structures so the code was not effective enough (De Jong, et al., 2001).

In 2003 the second committee Corporate Governance was asked to publish a renewed 'code of best practice' in the field of corporate governance. This committee is known as the 'Committee Tabaksblat' because the former CEO of Unilever, Morris Tabaksblat, was the chairman of the committee. In December 2003 the committee presented 'De Nederlandse Corporate Governance Code'. The Minister of Justice decided in 2004 to legislate the code and made it an official code of conduct for all the listed companies in the Netherlands. Because the 'code Tabaksblat' was approved by the Dutch parliament the listed companies were obliged to follow the standards and requirements of good corporate governance (Hessels and Hooge, 2006).

The code Tabaksblat is built on two central pillars. The first one is 'good corporate governance' which means, more transparency and integrity in the decision making process of the company. The second pillar is 'decent overview' which means that the company is liable for the overview of management and decision making (Houwelingen and Degens, 2005). The code covers 21 principles and 113 best practice criteria for good corporate governance. The principles and criteria have a character of 'apply' or 'explain'. This means that the companies must follow the code unless they have a good explanation to do not so (Leersum et al., 2009).

The code Tabaksblat contains six chapters. The first chapter covers general issues such as the purpose and the motive to present the code. The second chapter contains principles and best practice criteria about compliance of the code. The next chapter contains principles and best practice criteria about the tasks of the board of directors, the wages and conflicts of interests. The following chapter covers the independency, expertise, etcetera of the supervisory board. Next chapter is dealing with the principles and criteria regarding the privileges, certification of shares and the disclosure of information. In the final chapter the principles and criteria with respect to financial reporting, rewards and the assessment concerning the functioning of the external accountant and internal audit committee is presented (Commissie Corporate Governance, 2003).

In 2008, the code Tabaksblat was evaluated and revised. The Monitoring Committee Corporate Governance, better known as the 'Committee Frijns' referring to the chairman Jean Frijns, developed a revised code. The code contains, just as the code Tabaksblat 2003, principles and best practice criteria which must prevent the company from conflicts between the board of directors, the supervisory board and the General Meeting of Shareholders. In the revised code the emphasis lies more on the behaviour of the parties involved (Bos, 2009).

2.2 Organisational perspective

To determine the functions of good governance an important issue is the relation between the people or group of people who are playing a role in the organisation. This counts for individual companies as well for social discussions on the topic of corporate governance. So in this paragraph a brief explanation on the various theories will be drawn regarding governance within a family-owned business. The agency, stakeholder and stewardship theory will be discussed.

2.2.1 Agency theory

The agency theory deals with agency problems and has influenced the current thinking about governance models the most (Davis, et al., 1997). According to Jensen and Meckling (1976) agency problems occur as a result of incomplete and asymmetric information when the daily management is outsourced by owners (principals) to professional managers (agents). To prevent opportunistic behaviour by the management, the agency theory prescribes performance restrained reward systems and independent monitoring (Jensen and Murphy, 1990; Fama and Jensen, 1983).

Family-owned businesses, where cooperation takes place within the family, rely on the basis of mutual trust and shared interests. These companies differ in some cases from the non-family-owned businesses that a formal governance structure is not necessary and sometimes even counterproductive (Jensen and Meckling, 1976). When family members share a different opinion regarding the strategy or succession of the company there is the possibility that conflicts arise (Gulzar and Wang, 2010). Agency problems can occur within family firms because ownership and management of the company are divided over more than one person or group of persons.

2.2.2 Stakeholder theory

An alternative for the dominant shareholder model, which is derived from the agency theory, is the stakeholder model (Huse and Rindova, 2001). The stakeholder theory presumes equal attention to the interests of all the stakeholders. Next to shareholders also employees, suppliers, customers, the environment and the local community should benefit from a good corporate governance structure (Donaldson and Davis, 1994).

The family has next to her position as shareholder also an important and often dominant role as stakeholder within the company. An independent supervisory board can play an important role as mediator between different stakeholders and give recommendations towards the management. A code of conduct can contribute to decisions which have to be made by the supervisory board and offers clarity about how the stakeholder model should be applied in practise (Leersum et al., 2009).

2.2.3 Stewardship theory

The stewardship theory considers managers as stewards of the company, which are focused on the collective and are driven by the fact that the company must perform excellence on all aspects (Donaldson and Davis, 1994). In contrast with the agency theory the behaviour of the managers is not purely directed through opportunistic intentions. In the stewardship vision the manager must get the opportunities but also trust of the owner to be able to show hundred per cent willingness to work for the organisation. Especially trust is a distinguished element in comparison with the agency theory which is more focussed on the idea of monitoring (Matser, 2010). Members from the supervisory board should function as a mentor instead of monitor and cooperate in formulating and implementing strategies (Schulze et al., 2003).

According to Miller et al (2008) the stewardship theory is most applicable in case that the managers are family members or the managers have an emotional connection with the family business. In general it seems that the stewardship theory and the stakeholder theory match the best within a family business referring to the four C's of Miller et al (2008). These four success factors are: 1. Continuity, 2. Community, 3. Connectivity and 4. Command.

2.3 Corporate Governance in non-listed companies

A code can be supportive to improve good corporate governance. In Belgium there exists a Corporate Governance Code for non-listed companies. This code is called: 'Code Buysse II' (Buysse, 2009). In the Netherlands a code as Buysse II does not yet exist, however since a few years there is a discussion about the necessity and purpose of such a code. In 2011 the National Cooperative Council in the Netherlands presented a code for Dutch Cooperatives which shows that the attention on corporate governance is increasing also in non-listed companies.

Through the legal implementation of the code Tabaksblat, listed-companies in the Netherlands are obliged to follow the rules and requirements of good corporate governance. The expectation is that this legislation also has influence on the smaller non-listed companies (Hooge, 2005). This opinion is driven by the fact that the principles and best practice criteria in the code Tabaksblat are formulate in a way that they are also suitable for smaller non-listed companies (Hooge, 2005).

2.3.1 Core elements of Corporate Governance

In this paragraph the different elements of corporate governance will be discussed. The following elements will be discussed:

- Mission statement / Vision
- Operational and Financial targets
- Risk management
- Internal control
- Accountability
- Monitoring
- Transparency
- External experts

These elements are extracted from the following three codes:

1. Commissie Corporate Governance (2003), De Nederlandse Corporate Governance Code – Beginselen van deugdelijk ondernemingsbestuur en best practice bepalingen.
2. Buysse (2009), Code Buysse II Corporate Governance, Aanbevelingen voor niet-beursgenoteerde ondernemingen.
3. FBNed (2003), Ondernemen als Familie. Aanbevelingen voor goed bestuur in het familiebedrijf.

Mission statement / Vision statement

The aim of a mission statement is to provide employees and stakeholders with clarity about the overriding goal of the organisation. A mission statement makes the type of business clear in terms of long-term goals of the organisation (Johnson et al., 2012). The mission statement creates a frame of reference for decisions and actions for those who are involved in the business (Buysse, 2009).

The vision statement is concerned with the desired future state of the organisation related to the goals of the company. It is an aspiration which can help mobilise the energy and passion of organisational members (Johnson et al., 2012).

Operational and Financial targets

Operational and financial targets are in general based on the mission statement and vision of the company. Financial targets are overall related to the turnover and profit of the company. An operational target could be related to the production and service. For instance the lead time of an order. Operational targets as well as financial targets must be measurable in order to determine whether the targets are reached or not.

Risk management

Risk management is an important element for corporate governance. The company should recognise the risks, which have consequences for achieving the targets of the company. Next to the consequences the company must also estimate the probability, the impact and how to react to the risks. The issues mentioned above should be registered and formalized by companies in order to reduce the risks.

Internal control

Internal control is a process aimed to acquire a considerable extent of certainty regarding the achievement of targets. In the code Buysse II there is a complete chapter about control and risk management. The code suggests implementing a system of internal control which is adjusted to the size and complexity of the company. Further the code recommends to test the system of internal control on a regular basis to identify problems in an early stage.

Accountability

Companies are accountable towards stakeholders, particularly towards owners. They inform the stakeholders if the proposed targets are achieved such as turnover and profit. The annual report is for large companies a method to communicate about the developments of the past year. With the element accountability each stakeholder must take into account. Accountability is to some extent regulated by law. All companies must deposit the annual report at the Chamber of Commerce and further they are also obliged to follow the regulations regarding tax. All decisions which have a major influence on the strategy or other important issues which the company is facing must be justified to those who have a legitimate claim for a well-grounded explanation (Hessels and Hooge 2006).

Monitoring

Monitoring is an important element of corporate governance and relevant when ownership and management of the company is separated. The function of monitoring will be changing as the company as well as the family will evolve over time. The first generation is narrowly working together and has a shared interest to make the business successful. The family members have faith in each

other and try to make the best of it (Morris et al., 1997). When in the second phase the next generation is entering the business and in the third generation also cousins taking a role in the business the existing trust within the family will not remain automatically. The more members are involved into the business the less the mutual relationship will be (Matser, 2010). The shared interest may decline together with the trust in each other. According to Matser (2010) in this case there are two alternatives: The family-owned business invests in activities to restore the mutual relationship or they choose to implement a formal control mechanism.

Transparency

Transparency is the binding element and fundamental regarding corporate governance because it is concerning all the other elements. Transparency can occur in many different manners within an organisation. For example transparency in the external report or transparent operating by the board of directors.

External experts

External experts can support or advise the board of directors with managing the organisation and with decisions regarding the achievement of long-term strategic objectives. According to Hessels and Hooge (2006) the accountant plays an important role as critical advisor in SMEs. Also the contribution of other external experts could be of great value for the firm and is a powerful method to reach a professional image (Hessels and Hooge, 2006).

2.4 Conclusion

In this chapter an explanation of corporate governance is given and literature is investigated. Corporate governance can be seen as a control mechanism to secure the norms and values of the business and it also guarantees the interests of shareholders and other stakeholders. To secure these norms, values and interests, and to implement a governance structure that suits the company different elements of corporate governance must be applied within the firm.

In the remainder of this report these elements together with different structures of corporate governance will be studied to see what they are meaning for the family-owned businesses.

Chapter 3 Corporate governance structures

Governance structures cannot be determined by preferences of the company alone. Demands from governments, legal obligations and social advances have created a way in how decisions are being dealt with. These distinctions can lead to totally different business environments per country and therefore each company can have a unique governance structure. Though, academic literature acknowledges that, generally speaking, companies can have two systems in place: a one-tier board structure or a two-tier board structure. In this chapter the two different structures will be explained together with the two governance bodies within a company: The board of directors and the supervisory board. These two governance bodies will be explained within the two-tier board structure because Dutch companies, included family businesses have applied this structure within their business.

3.1 One-tier versus two-tier board structures

In the Netherlands but also in several other countries in Europe (Germany, Sweden, Austria and Finland) corporations consists in general of one management body which is the board of directors. In addition, it is obligatory for companies who comply with the characteristics of a structure regime to install a supervisory board which is monitoring the board of directors on behalf of the shareholders (Van Bekkum et al., 2010). The characteristics of a structure regime are as follows:

1. The issued share capital and the reserves of a company are 16 million Euros or more, according to its latest balance sheet (including explanatory notes);
2. The company must have implemented a works council;
3. At least 100 employees are working in the Netherlands for the company and subsidiaries of the company.

These characteristics are also applicable for family-owned business. So in case that a family-owned business meets all the characteristics the company is obliged to install a supervisory board.

The board of directors and the supervisory board are two statutory bodies (Hopt and Leyens, 2004). The board of directors (management board) consists of the directors, the so-called executive directors or inside directors. The supervisory board is composed of members who are independent of the company, the commissioners or the non-executive directors also called the outside directors (Maassen, 1999). This dual corporate governance structure is indicated in literature as the two-tier board model. In the two-tier board model the separation between decision management (initiation and implementation of decisions) by the executive directors and decision control (approval and monitoring the implementation of decisions) by the non-executive directors is consistently implemented in two independent bodies (Fama and Jensen, 1983; Aguilera, 2005). The fact that the supervisory board is monitoring and controlling from a certain distance is seen as one of the major benefits of two separate management bodies (Maassen, 1999).

Looking to family businesses the two-tier board is implemented in several non-listed companies in the Netherlands such as Jumbo which is a supermarket chain, Bavaria, a beer brewery, and Blokker with several retail chains.

In Anglo-Saxon countries such as the USA, Canada, Australia and the U.K., companies have a so-called one-tier board model. Executive and non-executive directors together constitute a board (Millet-Reyes and Zhao, 2010). This board is normally chaired by the Chief Executive Officer (CEO). In this case there is CEO duality, the CEO is namely also chairman of the board (Aguilera, 2005). As the one-tier board is mainly implemented in the Anglo-Saxon countries, in the remainder of this study the one-tier board structure will not be taken into account.

3.2 Board of directors in the two-tier board structure

3.2.1 Introduction

In most companies there is a separation between the implementation of strategic decisions and monitoring on these strategic decisions. The first task, the implementation, is carried out by the board of directors. The supervisory board will fulfil the control/monitoring function. The supervisory board is not involved in the implementation and daily operational tasks. Moreover it is questionable whether such a strict separation between decision makers and supervisors applies to all enterprises. For SMEs for instance this separation is less strict.

3.2.2 Tasks and responsibilities

According to the Dutch Corporate governance Code (2003), the following tasks are included in the task description of the board of directors:

- *The board is charged with managing the company, which means the responsibility for achieving the objectives of the company, determining the strategy and policy of the company and for the financial results.*
- *The implementation and compliance of an internal control system to reduce risks which can harm the company.*
- *Accountability regarding supervisory board and shareholders about operational and financial developments.*
- *In time provision of all needed information regarding the supervisory board so it can fulfil its task.*
- *The board of directors selects the CEO and instructs him/her with a job description program that details purposes, duties, limits of control/responsibilities for managing the company;*

According to Van den Berghe and Levrau (2004) several structural elements exist that characterize the board of directors: the board size and board composition. These elements will be shortly explained because they are related to corporate governance.

3.2.3 Board size

The board of directors must have enough members in order to do its work appropriately and to have a certain level of knowledge, skills, and experience to fulfil its oversight role. A large board makes it difficult to ensure communication and trust between the members. According to Fama and Jensen (1983), a large board will cause complexities in the communication of the group. Beasley (1996) studied in his research the relation between board size and committing financial fraud and he concludes that the probability of committing financial fraud is related to a large board. Moreover, Yermack (1996) reports that smaller board of directors are able to achieve better results than large

boards and are more effective than a large board of directors. According to Hessels and Hooge (2006) in most cases only two directors are forming the board of directors in SMEs contains.

3.2.4 Board composition

“A major finding is that the composition of the board is as important to the theory of corporate governance as the structure of organizations is to the theory of the firm” (Baysinger and Butler, 1985, p. 104). This statement underlines that board composition is an essential part of corporate governance.

The board of directors within family-owned businesses is practically always formed with members of the family. With the evolution of the firm it could be possible that in one moment of time there are no capable executives coming from the family to join the board of directors. In this case executives from outside the company must be recruited to ensure the continuity of the business (Matser, 2010). Regarding supervisory boards academic literature suggests that independence is best achieved through a majority of external board members capable of maintaining a division between management self-interest and corporate decision making (Van den Berghe and Levrau, 2004).

3.3 Supervisory board in the two-tier board structure

3.3.1 Introduction

According to Van Bekkum et al. (2010) the supervisory board acts to the interest of the company, which means to the interest of all stakeholders. The number of commissioners in the supervisory board is not regulated by the law except for the companies governed by the structure regime where the minimum number of commissioners is three.

3.3.2 Tasks and responsibilities

The tasks and responsibilities of the supervisory board are to advise and supervise the board of directors. According to the Dutch Corporate Governance Code (2003) the supervision over the board of directors contains at least the following issues:

- *Achievement of the company objectives;*
- *Corporate strategy on the risks inherent to the business activities;*
- *The design and effectiveness of the internal risk management and control systems;*
- *The financial reporting process;*
- *Compliance with primary and secondary legislation;*
- *The company-shareholder relationship;*
- *Corporate social responsibility issues that are relevant to the enterprise*

3.3.3 Independence of the Supervisory board

Research has shown that the independence of the supervisory board plays an important role to achieve effective corporate governance. The more independent the supervisory board is the more effective is the control function of the board. There is for example evidence that an independent supervisory board is earlier discharging a CEO who is not functioning well (Fich and Shivdasani, 2006).

It is common for CEOs that there is a relationship in one respect or another between them and the members which are appointed to the supervisory board. This makes it not surprising that there is usually a relationship between the board of directors and the supervisory board which could harm

the independence of the supervisory board. Members of the supervisory board can be linked to CEOs in different ways. The most common one occurs when a CEO (W) of a firm (X) is member of the supervisory board of company (Y) which is directed by CEO (Z). In addition CEO (Z) is member of the supervisory board of company (X) which is directed by CEO (W). In this way the two CEOs have the incentive to raise each other's reward. This system is common in the United States and in literature defined as 'interlocked' (Hallock, 1997). So it is obvious that they are not seen as independent commissioners.

Two characteristics of an independent commissioner are the age and tenure. According to Core et al (1999) the age of the commissioner and the period that the commissioner is active in a supervisory board partly determines the extent to which a commissioner is independent. The older the commissioner is and the longer he is fulfilling a function in the supervisory board the more intense the relation is with the board of directors.

3.3.4 Board size

The effectiveness of the supervisory board is influenced by the size of the board. According to Jensen (1993) a more extended supervisory board is reducing the effectiveness and is more sensible for influence of the CEO. This can be clarified by the 'free rider' problem. In an extended supervisory board each commissioner has the negative incentive to deliver effort because he assumes that other commissioners will do this. The possibility occurs that this results in less effective control on the board of directors (Fama and Jensen, 1983).

3.4 Conclusion

In this chapter structures of Corporate Governance and mechanisms of corporate governance are explained. In the Netherlands and most other European countries the two-tier board structure is implemented. The board of directors are the decision makers in the firm and are responsible for the results of the firm. The monitoring and control function is carried out by the supervisory board. The supervisory board is in the structure regime a compulsory governance body with a large responsibility in order to fulfil the principles and best practice criteria as stated in the Dutch Corporate Governance Code (2003).

The governance structure as explained before is not necessarily applicable in family-owned businesses due to the complexity of the family firm. In chapter four the family business and corporate governance will be studied to see how these two concepts are organized.

Chapter 4 Corporate Governance in family-owned businesses

As already stated in section 1.1 the family business is crucial for the economy in the Netherlands. Given that, it is interesting to know what the main features of a family business are and in order of this research how corporate governance relates to them.

4.1 The family-owned business

A family business can be described as a system that comprises of three independent but overlapping subsystems which can influence each other. These subsystems are business, ownership and family and are depicted in the Three-Circle model (Figure 4) of Gersick et al. (1997). The three circles divide the whole figure in seven sectors. Any individual in a family-owned business has one location in this model, depending on the connection that individual has with the firm. Number 1 refers to the family members who are not involved in the firm. Number 2 are non-family owners of the business. Then number 3 are non-family members working for the company. Next, number 4 are family members not working in the company but are owner of the firm. Number 5 are non-family owners who work in the business. Number 6 are family members who work in the business but are not owners and finally number 7 who are family members working in the business and are owners of the business.

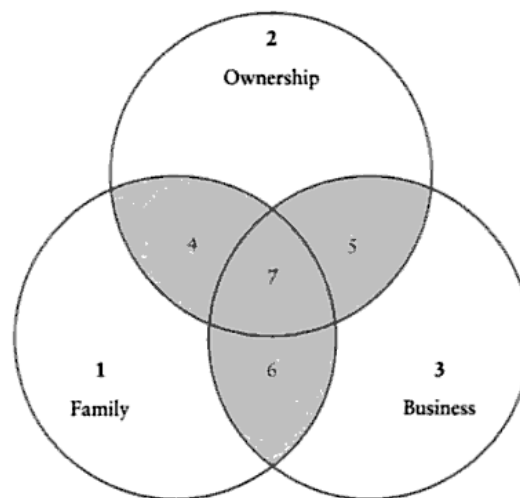


Figure 4. Three-Circle Model (Gersick et al., 1997).

Because the three circles are constant in motion and are not as static as in the Three-Circle model, Gersick et al. (1999) transformed it into a Development Model presented in figure 5. This model will be explained further in section 4.2.

4.2 Transforming the family business

To understand the evolution of the family business and the movement of the three subsystems through a sequence of stages over time Gersick et al. (1999) transformed the three-circle model into a development model illustrated in figure 5. In this model the subsystems are divided over three axes.

Next to the developments in the family, figure 5 also shows the evolvement of family ownership and the family business over time. According to Gersick et al. (1999) especially ownership development is playing an important role regarding the implementation of governance structures within family businesses. The development of these stages is a controlled process. According to Gersick et al. (1999) it is important to manage these periods effectively to increase the chances of family business continuity. Because the business develops from a controlling owner to a sibling partnership and finally to a cousin consortium the number of family members is increasing. Resulting that the relation between the family members is changing which means that the need for a more formal management structure is simultaneously growing (Matser, 2010). Many companies are struggling with a certain structure because they find it hard to find a structure which also fits the culture, principles and values of the family business. This culture is created through the beliefs, values and goals propagated by the family, and is rooted in the history of the firm and the social relationships between the members. The professional and personal membership roles disappear over time and this culture is transferred from generation to generation (Hall et al., 2001).

According to Matser (2010) an advisory board can offer a solution which better suits in a family business. If the development of the business requires a more formal structure the next step could be the installation of a supervisory board. In section 4.3 the advisory board will be explained further.

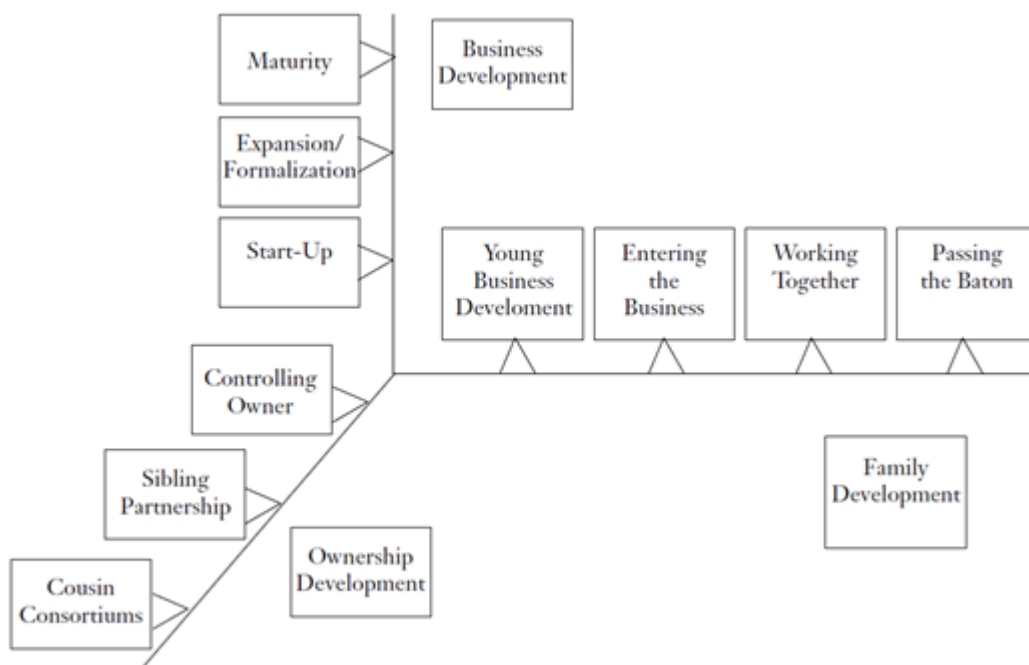


Figure 5. Development model (Gersick et al., 1999).

4.2.1 The family

The elements of a family are its members. A family is consequently the more complex, the more members it has. Furthermore, complexity comes with different age of the family members, with geographic distance between them, and finally with their goals and how important these goals are for each family member (Klein, 2010). Depending on the level of complexity, the essential degree of family governance regulations can be estimated for the respective family. According to Klein (2010) here, mechanisms such as informal family meeting, formal, frequent, several times per year occurring meetings or even so called family councils can be organised .

4.2.2 Business

The family business is governed and/or managed by a family and controlled by members of the same family or a small number of families. To ensure the continuity of the business this is done in a manner that is potentially sustainable across generations of the family or families.

According to Flören (2002) a firm is considered as a family-owned business when it meets two of the following three requirements:

- One family has ownership of more than 50% of the total firm.
- One family has decisive influence on the company's strategy or on succession decisions
- A majority or at least two members of the board of the company come from one family.

4.2.3 Ownership

The complexity of the ownership system mainly comes from the number of shareholders as well as from the differences between share sizes. The more shareholders exist, the more complex communication and coordination becomes. A further interest conflict which has been discussed many times in corporate governance literature exists between majority and minority shareholders.

4.3 Family business governance

Different types of family businesses, requires different types of governance structures. Especially larger businesses must pay attention on the governance structure of their firm. A structure which is common in several types because it suits the requirements, such as no binding authority, of the directors is the advisory board. In next subsection the advisory board will be explained.

4.3.1 The advisory board

Looking to the structure and composition, the advisory board shows some similarities with the supervisory board. On the other hand a major difference -which is also the most important one- is the authority to make decisions. The advisory board is only authorized to give advice to the board of directors. Further the function of the advisory board is to act as an external sounding board, which the board of directors can appeal to when making important decisions. The advisors who are member of the advisory board have no power to make decisions by themselves, their influence is limited to provide the board of directors with advice. As opposed to the oversight elements of supervisory boards, advisory boards help encourage a sense of trust and commitment in management through managerial empowerment (Lane et al., 2006). Further advisory boards have proven to be a good step for many family businesses as it is still allows the family to call for external

advice and skills without the fear of losing control to a supervisory board. Although advisory boards promote independent input on governance and control items similar to those wrestled by the supervisory board, the advice of the advisory board is non-binding and the advisory board has no financial decision making capabilities. Advisory boards can help, teach and direct family business executives on many of the same control issues faced by the supervisory boards, and ultimately, decisions are handed to the board of directors in the form of suggestions instead of drastic implementations.

The demand for external experts becomes necessary from a resource-based viewpoint, as business owners can call on the advice and subsequent business skills of external individuals to complete the knowledge gap of a competent board. Additionally, Corbetta and Salvato (2004) identify four resource categories enhanced by advisory boards: providing expertise and advice to management, facilitating open communication between internal and external resources, enhancing business credibility, and securing privileged access to external resources. Each of these advisory board roles is facilitated through network connections of the board members themselves. The need for advisory board members to fill the missing competency gap is also critical to balancing the interests of all parties within the corporation (Bammens et al., 2010). According to Corbetta and Salvato (2004) members of the advisory board also has the task to minimize conflicts between family members. With conflicts commonly erupting between family issues and business goals, the demand for an objective third party can play a critical role (Lane et al., 2006). Advisory board members offer family business directors an objective perspective while limiting the threat to family decision making that may be present with a supervisory board (Osi, 2009).

Within the context of family businesses, it is not necessary to choose either for a supervisory board or an advisory board. A combination of the two governance structures may be the more appropriate format depending on the family business circumstances (Bammens et al., 2010; Corbetta and Salvato, 2004; Lane et al., 2006).

Regardless, family control is clearly important to most family businesses, Lane (2006) highlight the importance of external advisors serving in both advisory and supervisory roles for increased diversity, conflict management, accountability and overall advancement of the business.

4.3.2 The supervisory board

The evolution of the family and simultaneously the ownership structure of the firm over time may warrant the establishment of a supervisory board. As presented in Figure 5, ownership development and subsequent the increasing number of family members creates a widespread consortium of cousins in the last phase of ownership development.

If a family business chooses to establish a supervisory board this must be reported in the articles of association of the firm. For large businesses some tasks of the supervisory board are regulated by the law but in addition extra power and duties of the supervisory board can be included in the articles of association of the firm (Matser, 2010).

Within family businesses a main task of the supervisory board is to ensure that the major shareholder, in most cases the family, maintains an appropriate relationship with the most important stakeholders, for instance the employees (Hessels and Hooge, 2006). When it comes to accountability, the major shareholder has a certain responsibility not only to the family and the board of directors but also the other stakeholders such as the employees.

According to Matser (2010) the supervisory board is much more complex to implement within a family business than the advisory board. This is why, in her opinion the advisory board better suits the requirements of the family. An important reason is that the advisory board has no official decision making power. The establishment of an advisory board is much easier which means that it is also cheaper.

4.4 Conclusion

Within the context of family businesses, the use of either a supervisory board or an advisory board is not necessarily the best option for the business. Rather a combination of the two governance structures may be the best format. The governance structure which suits the company the best is dependent on several aspects. A major aspect is the interest of corporate governance by the family. If family business owners do not want any interference from outside the family then it is hard to implement a governance structure with external and independent advisors. Further the stage in which the business is acting is important. For instance with the increasing number of family members which are involved in the business, the more complex issues within the family can arise, which can harm the business. In this case corporate governance can bring structure within the business and the family which makes it easier to deal with these issues.

To conclude this literature study the elements and structures which are studied in the empirical part of this research are listed below.

- Mission statement / Vision
- Operational and Financial targets
- Risk management
- Internal control
- Accountability
- Monitoring
- Transparency
- External experts

During the interviews and in the questionnaire, questions about these elements and governance structures were asked to retrieve information about how and why those elements and governance structures are implemented in the family business. The questions about governance structures were focussed on supervisory boards and advisory boards because these two structures are most common in family-owned businesses (Matser, 2010). In the next chapter the methodology of the empirical study will be explained.

Chapter 5 Research Methodology

In this chapter the methodology of this thesis will be outlined. First the research design will be explained, followed by the data collection method. Furthermore the method used for the data analysis will be discussed and the validity and reliability of this thesis will be described.

5.1 Research design

Research about family businesses in relation with corporate governance is uncommon. Due to the undefined relation between corporate governance and family businesses, the purpose of this study is exploratory. However some facts are known, this means that this study is undertaken to better understand the problems in this research area. During the execution of this study it became clear that it was not possible to get access to a large data file with contact persons of family businesses and conduct a large quantitative study. Therefore two other methods have been chosen. By means of a quantitative study in which a survey was sent to a small group of companies a limited amount of quantitative data was collected. Next a qualitative study is conducted by means of a case study to prove that this study is really concerning family-owned businesses.

Combining these two methods attempts to acquire answers about how and why by thorough and precise description of incidents regarding corporate governance. The quantitative study was used to see if the results within the case can be generalized although the sample was very small. In next subsections the two methods will be clarified further.

5.1.1 Case study design

To gather in-depth information a case study was conducted. “A case study is a type of research in which the researcher tries to gain a profound insight into one or several objects or processes that are restricted in time and space” (Verschuren and Doorewaard, 2010). According to Yin (2003) a case study is a perfect method especially for a research with a focus to find answers on questions like how and why. One of the characteristics of a case study is the small number of research units, or cases.

The case in this research is the Den Ouden Groep, a family-owned business located in the southern part of the Netherlands. In the remainder of this research the abbreviation Den Ouden is used referring to the Den Ouden Groep.

5.1.2 Quantitative study design

To gather more information about corporate governance within family businesses in general, a questionnaire was sent to the financial managers of approximately 35 family-owned businesses. The financial managers were requested to fill in the questionnaire because the researcher possesses only direct email addresses from them.

The businesses are all member of ‘Brabantse Familiebedrijven Genootschap’ which is a society founded for family businesses to share ideas and experiences. The total number of members within the society is larger but only those from whom a personal email address was obtained were approached. Within this society different companies from different sectors are active as members.

The questionnaire contains 18 closed questions about general characteristics of the firm and about the different elements and structures of corporate governance. The questionnaire together with the introduction letter is presented in Appendix III.

5.2 Data collection

5.2.1 Interviews

In this research primary data is collected by conducting interviews and by means of a questionnaire. Based on the theoretical background related to the research questions, interview questions were prepared and during face-to-face interviews asked to the respondents, together with some background questions. Personal focused interviews were arranged with several people selected on the basis of the Three-Circle model. For this research two directors were interviewed together with a former director and someone from the family who is currently working within the business. Also the advisory board of Den Ouden was willing to cooperate which have resulted in a short interview with members of this advisory board.

Before these interviews took place an interview was planned with a specialist from BDO. The interviewee is senior consultant specialised in family businesses and has no connection with the case (Den Ouden) in this study. This interview was planned as preparation for the other interviews because BDO has a lot of knowledge on all fields related to family businesses.

Because not each area of the Three-Circle model is represented by a person who can be interviewed, only those were interviewed who have management experience and are familiar with corporate governance. The questions were asked based on a semi-structured interview type. Every interview started with the same set of interview themes and questions, but depending on the answers given, new follow-up questions were formulated, allowing the respondents to elaborate answers. Due to the semi-structured way, the interviewees are able to explain or build on their responses. During the first interviews the most important factors were tried to reveal, and these interviews helped to fine-tune the questions asked in later interviews. The interviews were conducted on location where the interviewee is located.

Before the interview starts, the interviewees were informed about the intention and the goal of the interview and permission was asked to audio-record the interview. Appendix I shows the operationalization of the concepts. This operationalization makes clear how the interview questions are derived from the concepts which are extracted from literature.

5.2.2 Questionnaire

Family-owned businesses who are a member of 'Brabantse Familiebedrijven Genootschap' were requested to fill in a questionnaire. The request to fill in the questionnaire was addressed to the financial managers of family-owned businesses, for which it was possible to obtain direct e-mail addresses. Nearly 35 financial managers were asked to fill in the questionnaire. The focus of the survey is on the current situation related to corporate governance, to see how it is currently organized and why. The reason for this additional survey is to gather more information in order to be able to give answers to research question four and five. The analysis of the questionnaire is strengthening the results and together with the analysis of the interviews the general research question was answered. The survey is digitally created on the website thesistools.nl. When the questionnaire was ready it was easy to send the questionnaire to all the financial managers by email. Subsequently the respondents open the questionnaire and fill it in with their computer and send it back. On the website the results were collected.

The questionnaire contains 18 questions related to research question four and five. In Appendix II the operationalization of the concepts is presented in order to make clear how the questions are composed.

5.3 Data analysis

5.3.1 Interviews

After the interviews were conducted, the written notes and, if present, the audio tapes were summarized into written text. This implies that qualitative data was transcribed giving non-numeric data (Saunders et al., 2009).

When all the interviews were completed, the data was analysed. Each answer was analysed carefully in order to reveal information related to the topics of this research. The answers were assigned to the different topics which were found during the literature study. To keep a clear overview, matrixes were created to assign the opinions of the respondents to a particular topic. The answers given by the interviewees were compared in order to find similarities. This helped by identifying relationships, key themes and patterns in the data (Saunders et al., 2009).

It is noteworthy that language issues can arise in this process of data analysing, because the interviews were conducted in Dutch, but the results are presented in English.

5.3.2 Questionnaire

After two weeks a reminder was sent to all participants of the survey in order to receive more answers. At one moment in time it was no longer possible to fill in the questionnaire so the answers were analysed. Relations between constructs and governance characteristics were investigated. Finally the results were presented in tables and graphs to create a clear overview. Due to the small number of questionnaires that was sent and the construction of the questionnaire, the results were analysed with some basic statistics.

5.4 Validity and reliability

A good internal and external validity ensures that the findings of the research are really what they appear to be about. If the research is well constructed this can be accomplished (De Vaus, 2001). However, both the internal validity, the authenticity of the cause-and-effect relationships, and the external validity, the generalizability to the external environment, are questionable in this research. Because it is difficult to establish which factor causes another the internal validity is weak and therefore hard to come up with conclusions about cause-and-effect relationships. The external validity is doubtful due to the sampling strategy of a convenience sample. Reliability means that a measure is consistent and stable, and will increase when the data gathering method is standardized (De Vaus, 2001).

A factor that can lead to a decrease in validity and reliability will be the semi-structured way of interviewing. Allowing questions from the respondent during the interview will reduce the reliability because it will lead to less standardization between the different interviews. Moreover, using new and follow up questions can be needed to get more information, but they can also lead to the wrong direction of the answer. To achieve high validity and reliability in case study research, Riege (2003) give some guidelines:

Construct validity: To reach high validity the collected data has to confirm the objective of the research. A technique to do this in a case study is to build a chain of evidence by finding multiple sources of data. This occurs in a phase where data is collected. Next to the sources of data it is important how the data is interpreted by the researcher and how it will be reported. Within this

research data will be collected by means of a questionnaire and secondly by interviewing different people.

Internal validity: Internal validity is in this case the soundness of the research design. The research does indeed provide information about the properties of interest. Through working with different methods, sources of data and theoretical perspectives the situation of the research is represented as good as possible, this benefits the internal validity. In this research the data is provided and interpreted from the perspective of related persons, this benefits the internal validity.

External validity: The external validity explains how results can be generalized (De Vaus, 2001). Because only one case study is done with a company that does not necessarily represent the majority of the family-owned businesses generalizability to a broader range is not justifiable. The questionnaire does increase the generability of this research, however information obtained from this survey has its limitations due to the number of respondents.

Reliability: The reliability of a research determines to which extent a research is replicable. If the same research would be conducted again the results from this second research says something about the reliability of the research. So the less the results depend on co-incidence, the more reliable the measurement is. Techniques to investigate the reliability are based on full account of theory and ideas. Report all actions and observations and find parallelism between different data sources in the data collection phase. Data that is gathered during the empirical phase can be insufficient due to time limitation. Other or even better information can be found when a larger group of family-owned business was approached to fill in the questionnaire.

Chapter 6 Results

This chapter shows the results of the data collection described in previous chapter. Six people were interviewed to obtain more in depth information. The results from these interviews are presented in subsection 6.1 by means of several tables. The tables show on top the topic, and vertically the respondents of the interviews and their opinions about that specific topic. Further, 33 questionnaires were sent and finally seventeen companies participated in this questionnaire. The results from the questionnaire are presented in subsection 6.2.

6.1 Results case study

In Table 1 an overview is given about the respondents who are interviewed in this case study.

Table 1. Interviewed Respondents

Respondent #	Function
<i>Respondent 1</i>	<i>Member advisory board Den Ouden.</i>
<i>Respondent 2</i>	<i>Member board of directors Den Ouden.</i>
<i>Respondent 3</i>	<i>Member board of directors Den Ouden.</i>
<i>Respondent 4</i>	<i>Former member board of directors Den Ouden.</i>
<i>Respondent 5</i>	<i>Member of family Den Ouden and working in the business.</i>
<i>Respondent BDO</i>	<i>Specialist in family owned businesses BDO.</i>

Den Ouden was founded more than 60 years ago and started as a contracting firm. The contracting work was extended and in the seventies the board of directors decided to broaden the company's horizon. Den Ouden started to concentrate more on civil and agricultural engineering works. The experiences gained during the maintenance of the regional waste dump with environmental care and recycling induced the company to also concentrate on the processing of green waste. In 1999 Ferm O Feed, producer of organic fertilizers, was added as a subsidiary company and in 2006 also Bodac, a company that focuses on the detection of explosives, is taken over and added as a subsidiary of Den Ouden.

Approximately 200 employees are working within Den Ouden with a turnover of nearly €40 million. Currently the second and third generation is working within the firm. In the coming years the second generation will retrieve and the authority will be transferred to the third generation. The second generation consists of five brothers what means that members of the third generation are all cousins or brothers of each other. Looking at Figure 5 in section 4.2 Den Ouden is located on the Ownership Development axis somewhere between sibling partnership and cousin consortium. Considering this situation and the large number of family members it is obvious that agreements and a decent governance structure are necessary to keep the organization manageable. Therefore rules about many different topics such as, division of shares, eligibility criteria for obtaining shares and the authority of the advisory board, are recorded in the articles of association of the family. The advisory board is implemented as sounding board for the board of directors and for continuity of the firm.

Topic: Mission statement and vision

Respondent #	Opinion
1	We were involved in formulating the mission statement and vision of the company. During workshops together with the second and third generation we discussed the future of the business.
2	The mission statement is a translation of the activities of the firm. This mission statement shows what we as a company are aiming for. The vision is more about the continuity and transfer of the business to the third generation.
3	Our most important mission is to transfer the business in the coming years to the next generation and leave a healthy business behind us.
4	During my period as director we formulated our first official mission statement and vision. For me it is something abstract and I cannot exactly phrase the mission statement and vision.
5	As member of the third generation I contributed in the formulation of the mission statement and vision. During workshops it became clear what we as a business and as a family want to reach.
BDO	The mission statement is important for the business to create a frame in which the firm is acting. The vision is addressed to succession of the company in the future.

Topic: Operational and Financial targets

Respondent #	Opinion
1	The advisory board approved the long term goals in 2008. Each year we take a look to these targets and evaluate the progression. If necessary we give advice to the board of directors in modifying the targets.
2	In 2008 we set our long term goals for the period 2008-2013. Just as with the mission statement and vision we formulated the long term goals during workshops with the second and third generation.
3	Next year in 2013 we will formulate new targets for the coming years. These targets will be mainly based on the retirement of the second generation and on movement of the head office.
4	In the past when we were a much smaller company there was only one target, work hard. Nowadays it is important for the business and for the employees to set targets that show that the business is aiming for development.
5	The company have clear targets for the coming years. Next to this I think that for our company it is also important to set targets on operational level. At the moment these targets are not concrete enough.
BDO	Targets are set to realize the vision of the company in the long term. Another reason to set targets is to motivate management and the employees.

Topic: Risk management

Respondent #	Opinion
1	Not discussed
2	Together with the advisory board we discussed the use of a risk tool to manage strategic risks. We decided to implement this tool not, because our organisation was not ready for it. We have a list with the ten most important operational risks which we discuss several times a year.
3	Last year we invited a risk specialist to discuss the risks of our business. During three sessions we determined all the risks and prioritize them. This resulted in a list with ten risks that we frequently discuss with the shareholders and the management.
4	Each business is facing many risks, that is why risk prevention is an important item in our company. Frequent audits on the work floor and toolbox meetings are actions to decrease the number of accidents.
5	We are very active in risk management. With toolbox meetings we make our employees aware of possible risks during their activities. Further we report accidents in our management system and set actions to reduce the possibilities of occurrence of accidents.
BDO	Determining risks and communicate them within the company is of great importance. When the risks of the company are clear and reported in a risk management plan concrete actions can be set to decrease the possibility of the occurrence of these risks.

Topic: Internal control/monitoring

Respondent #	Opinion
1	Controlling is not the right word regarding an advisory board. Of course we analyse each month the financial figures but we use them in our advice towards the board of directors instead of punishing them for the results.
2	Looking to the structure of the company it doesn't matter, at least in this construction it doesn't matter. A supervisory board is more complex to organise and what is the added value? The task of a supervisory board as well as the task of an advisory board is to discuss the decisions initiated by the board of directors. But a supervisory board has officially more authority. In the articles of association of the family the authority of the board of advisors is registered.
3	In my opinion the most important task of the advisory board is to serve as a sounding board. Further they must be very critical on us as directors and discuss the choices that we want to make.

4	The role of the advisory board is mainly to examine choices made by the board of directors and sometimes to push them in a certain direction. In the articles of association of the family agreements about the business in relation to the company are recorded. This document is very important when there are disagreements within the family.
5	The task of the advisory board is to advice the board of directors. They have influence on the direction of the company due to their responsibilities.
BDO	In general, but of course each business is different, we advice family businesses to implement an additional governance board such as a sounding board or an advisory board. Depending on the situation it is also possible to choose for a supervisory board. Further a document in which agreements about for instance authority and succession are registered can avoid conflicts.

Topic: Accountability / Transparency

Respondent #	Opinion
1	In order to prevent problems in the family it is important to share information with all shareholders. Communication between family members is important to strengthen the relation between them.
2	We are very accountable towards the employees. Each year during the New Year's reception the results from the past year are presented to all the employees and the plans for coming year are explained. Transparency regarding employees is important for our company.
3	At the beginning of the year I present a summary of the results of the past year to our employees. And each month we spread a newsletter to our employees with the latest information. Transparency is important to avoid wrong communication within the company.
4	Communication and transparency become increasingly important. Stakeholders, especially shareholders and employees must be well informed about the company to create an open atmosphere.
5	During the annual meeting with all the shareholders we receive information of the past year from the board of directors and from other shareholders. During other meetings we also exchange thoughts with each other and also with our employees.
BDO	Accountability and transparency are very important aspects in family-owned business. In general family-owned businesses are closed systems. What is underestimated but which plays a role, from a family point of view, is safety. Family businesses have in general a large amount of private equity. If they put such information on their website it makes them a potential target.

Topic: External experts

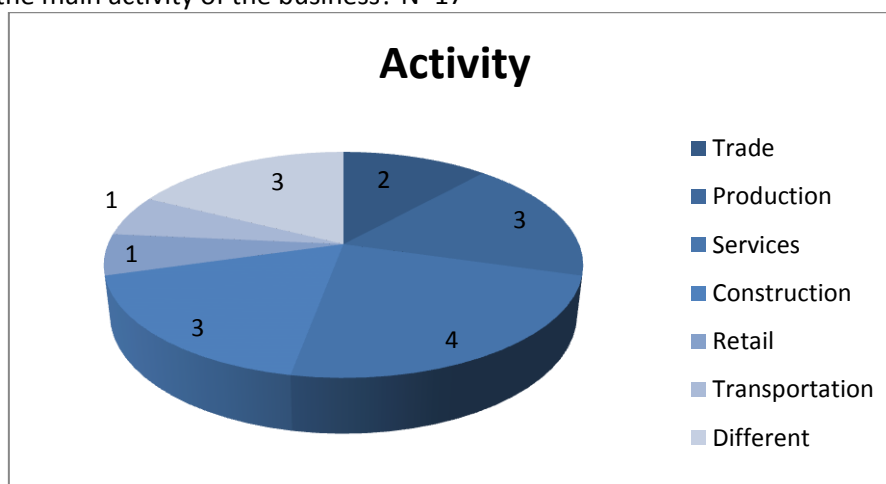
Respondent #	Opinion
1	The most challenging and complex for the external advisor in a family-owned business is to receive all, and I mean all the information on time.

2	The expertise and experience of the advisory board is filling the expertise gap that the board of directors is facing. The board of directors has their shortcomings and other persons can fill this gap.
3	The advisory board exists of people with a lot of experience in the field of legal and finance. They play an important role in our company but also as a sign of professionalism towards banks and suppliers.
4	Our company is grown very fast in the last ten years. From a small company it is grow to a large well known business in the south. The five brothers had no real education so it was necessary to recruit external experts to keep the business manageable.
5	External experts add knowledge to the business. The company and the board of directors can use the experience of the external experts in order to make the right decisions. Further the advisory board in our company can also play a role if there are problems between shareholders.
BDO	A commissioner is the link between the board of directors and the shareholders, where the number of shareholders is in general larger than the number of directors. A commissioner should manage problems in the family and mediate between the different parties.”

6.2 Results Questionnaire

In this subsection the results for each separate question from the questionnaire will be presented.

1. What is the main activity of the business? N=17

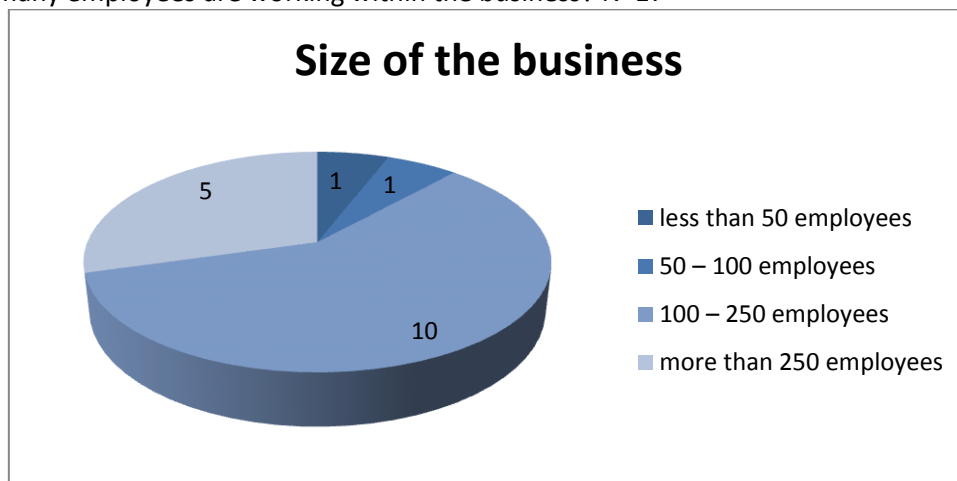


The questionnaire was completed by two director-shareholders, fourteen financial managers and one financial manager-shareholder. The businesses participated in this research can be divided in two trade businesses, three production companies, four services companies, three construction firms, one retail company, one transportation firm and three companies in another business area.

2. In which year is the business founded? N=17

Respondent #	Year
Company 1	1965
Company 2	1960
Company 3	1928
Company 4	1960
Company 5	1986
Company 6	1927
Company 7	1969
Company 8	1948
Company 9	1980
Company 10	1978
Company 11	1972
Company 12	1948
Company 13	1988
Company 14	1968
Company 15	1980
Company 16	1947
Company 17	1986

3. How many employees are working within the business? N=17

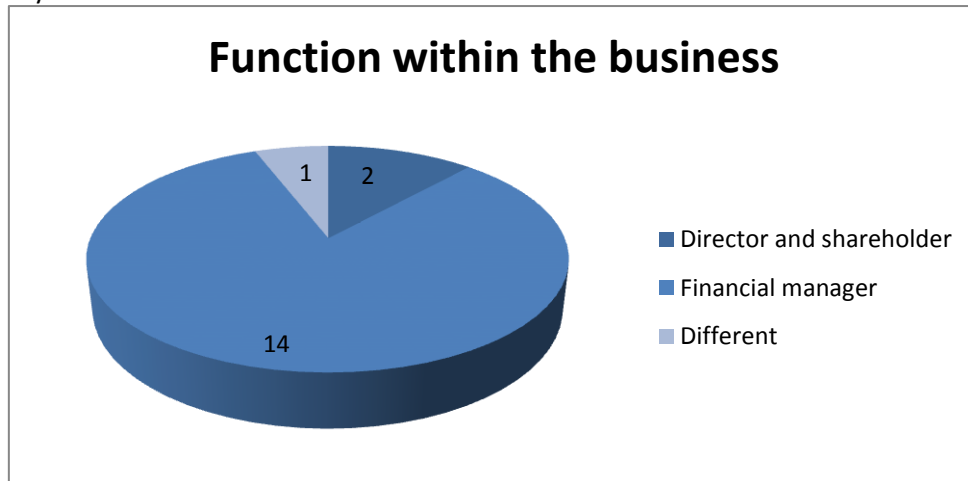


4. How many family members are working within the business? N=17

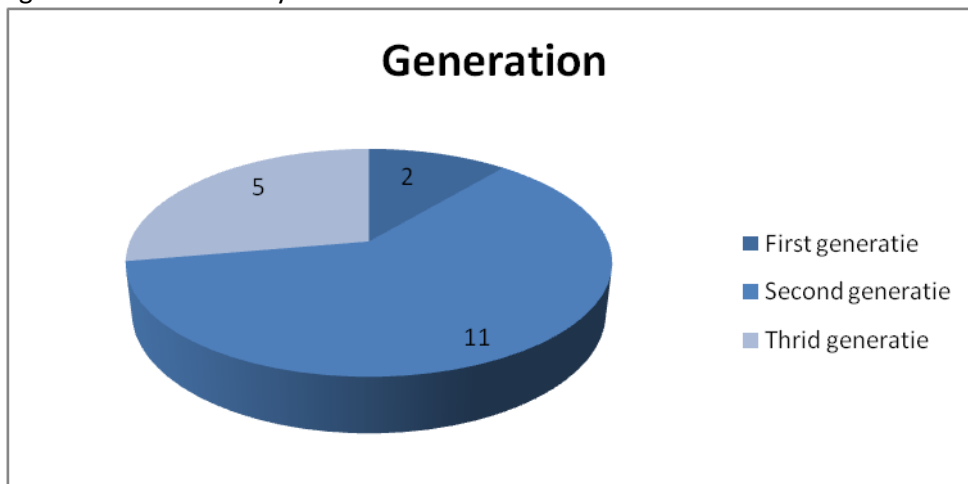
Respondent #	# family members
Company 1	6
Company 2	2
Company 3	2
Company 4	6
Company 5	5
Company 6	3
Company 7	3
Company 8	20
Company 9	1

Company 10	2
Company 11	2
Company 12	6
Company 13	2
Company 14	5
Company 15	2
Company 16	6
Company 17	2

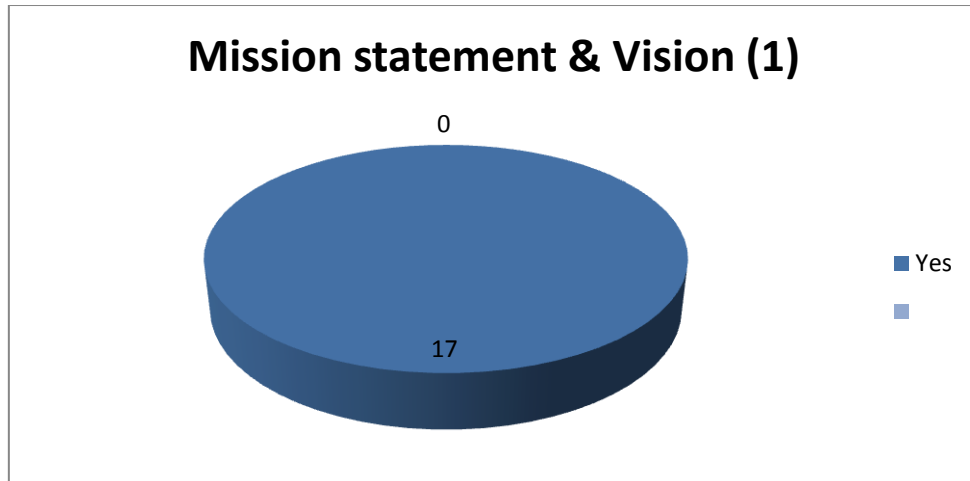
5. What is your function within the business? N=17



6. Which generation is currently active in the board of directors? N=17



7. Is there a clear mission and vision formulated? N=17



8. Who are involved in formulating the mission and vision? N=17

Mission statement and vision (2)	Respondents
Family members who are not involved in the firm	3
Family members not working in the company but owner of the firm	4
Family members who work in the business but are not owners	2
Family members working in the business and are owners of the business	16
Non-family owners who work in the business	1
Non-family owners of the business	0
Non-family members working for the company	11
Different	1

9. Why is there a mission and vision formulated? N=17

Mission statement and vision (3)	Respondents
To give direction to the company	17
To distinguish from other companies	7
For a professional image	1
Good reputation regarding customers and suppliers	3
Ensuring continuity of the company	11

10. Who are involved in formulation operational and financial targets? N=17

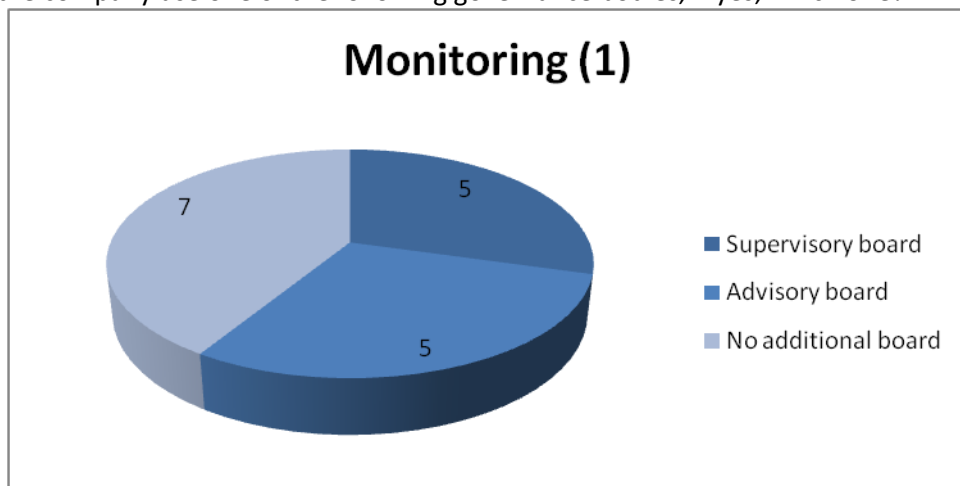
Operational and Financial targets (1)	Respondents
Family members who are not involved in the firm	3
Family members not working in the company but owner of the firm	3
Family members who work in the business but are not owners	1
Family members working in the business and are owners of the business	14
Non-family owners who work in the business	1
Non-family owners of the business	0

<i>Non-family members working for the company</i>	<i>14</i>
<i>Different</i>	<i>0</i>

11. With who are aware of these operational and financial targets? N=17

Operational & Financial targets (2)	Respondents
<i>Family</i>	<i>8</i>
<i>Employees</i>	<i>13</i>
<i>Suppliers</i>	<i>0</i>
<i>Bank</i>	<i>10</i>
<i>Supervisory board</i>	<i>5</i>
<i>Advisory board</i>	<i>5</i>
<i>Family council</i>	<i>0</i>
<i>Different</i>	<i>1</i>

12. Does the company use one of the following governance bodies, if yes, which one? N=17



13. Why is the company using one of the above mentioned governance bodies? N=10

Monitoring (2)	Respondents
<i>To control decisions made by the board of directors</i>	<i>5</i>
<i>To serve as sounding board for the board of directors</i>	<i>9</i>
<i>For a professional image</i>	<i>0</i>
<i>Good reputation regarding customers and suppliers</i>	<i>0</i>
<i>Ensuring continuity of the company</i>	<i>5</i>

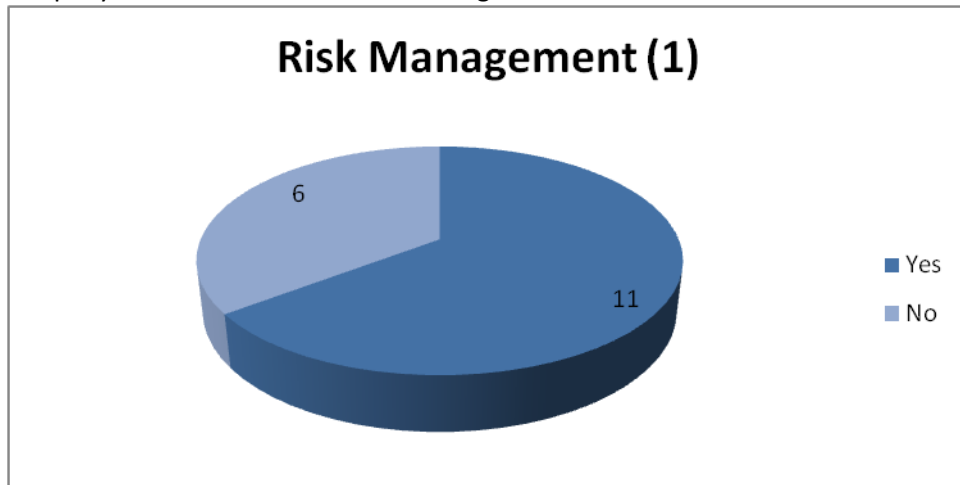
14. To who are the decision makers accountable? N=17

Accountability	Respondents
<i>Shareholders</i>	<i>11</i>
<i>Supervisory board</i>	<i>5</i>
<i>Advisory board</i>	<i>5</i>
<i>Family council</i>	<i>0</i>
<i>Different</i>	<i>1</i>
<i>No one</i>	<i>2</i>

15. In which way are the decision makers accountable? N=17

Transparency	Respondents
<i>Presenting the results to the shareholders, advisory board, supervisory board or family council</i>	15
<i>Presenting the results to the employees</i>	5
<i>Publication of the results on the website</i>	2

16. Is the company active in the field of risk management? N=17



17. Who are involved in formulating the risk management plan? N=11

Risk management (2)	Respondents
<i>Family members who are not involved in the firm</i>	2
<i>Family members not working in the company but owner of the firm</i>	0
<i>Family members who work in the business but are not owners</i>	2
<i>Family members working in the business and are owners of the business</i>	6
<i>Non-family owners who work in the business</i>	0
<i>Non-family owners of the business</i>	10
<i>Non-family members working for the company</i>	1

18. Why is there a risk management policy within the company? N=11

Why is there a risk management policy within the company?	Respondents
<i>Determine possible risks and make them manageable</i>	11
<i>Create awareness regarding possible risks</i>	7
<i>For a professional image</i>	0
<i>Good reputation regarding customers and suppliers</i>	1
<i>Ensuring continuity of the company</i>	4

Chapter 7 Analysis

This chapter will analyze the results presented in the previous chapter so that final conclusions can be drawn. The five research questions are answered in the following subsections.

7.1 Analysis by Research Question

The answers are related to five different research questions. The first research question is concerning the core elements of corporate governance to understand what respondents think corporate governance is.

7.1.1 RQ1: What are the core elements of corporate governance?

The following elements of corporate governance were distinguished in chapter two:

- Mission statement / Vision
- Operational and Financial targets
- Risk management
- Internal control
- Accountability
- Monitoring
- Transparency
- External experts

During the interviews it became clear that especially internal control and monitoring are essential elements of corporate governance. Respondent BDO stated that:

“Good corporate governance within family-owned businesses is mainly based on the presence of independent advisors who are not afraid to confront the board of directors with counter arguments”.

If the external advisor is always agreeing upon the opinion of the board of directors, the effect of sounding board will be zero since no real discussions will take place. To function as best as possible it is of great importance that the supervisory board, as well as the advisory board, receive all the information which is available on time. Respondent 1 stated:

“The most challenging and complex for the external advisor in a family-owned business is to receive all, and I mean all the information on time”.

7.1.2 RQ2: What are possible structures of corporate governance?

Literature shows two different governance structures. On the one hand the one-tier structure and on the other hand the two tier structure. The one-tier structure is mainly adopted in Anglo-Saxon countries. In this system the supervisory board and the board of directors are integrated in one governance body and are formed by non-executive directors and executive directors.

The two-tier system with two governance bodies is common within businesses in the Netherlands. In this two-tier board structure, power, regarding decision management is separated in two independent governance bodies. On the one hand the board of directors is operating and on the

other hand the supervisory board is monitoring the decisions of the board of directors. This governance structure is also applied in large family-owned businesses. In structure regimes companies are obliged to install a supervisory board. So if family-owned businesses meet the characteristics of a structure regime it is mandatory to implement a board of supervisors.

Looking to the results of the questionnaire four out of five companies with more than 250 employees have installed a supervisory board and furthermore also five companies installed an advisory board next to the board of directors. The five companies that have implemented an advisory board have more than 100 but less than 250 people employed, so all companies with a supervisory or advisory board are having more than 100 employees. Next to the supervisory board and the advisory board, companies do not refer to another governing body in the survey which is controlling or advising the firm.

7.1.3 RQ3: Which elements/structures of corporate governance are feasible in a family-owned business?

This subsection is dealing with the question if the extracted elements and structures of corporate governance are feasible within a family business. First of all a family business is not different from other businesses however, the family aspect makes it unique. Respondent BDO stated this as follows:

“Family businesses are just as any other business, they have a strategy, are controlled and everything must be organized in a decent way but in one way they are different. In my opinion they are the companies of the future because they are unique in their culture and structure. The aspect family plays an important role in particularly culture”.

It is difficult to project the different elements and structures on family-owned businesses in general. During the interviews all the elements and structures are discussed and within the case of Den Ouden attention is paid to all the different elements.

Respondent 3 stated that the mission is a translation of the activities of the firm. The vision is more related to the future.

“Important is where we as a family business want to be over a couple of years. Issues as the continuity of the business and also the succession of the business to the third generation are important aspects regarding the vision”.

Targets are set for the long term. In this case targets were set for the period 2008-2013 and are revised every year.

Den Ouden is very active in risk management. They have rolled out a risk management plan in which all the risks are registered. A member of the board of directors of Den Ouden stated that this risk management plan have led to a top ten risks which are frequently discussed with the shareholders, management and the board of directors.

Due to the different certificates related to quality and safety, Den Ouden is audited on a regularly basis to see if they met all the requirements in order to keep the certificates. Respondent 3 stated that there is no internal audit committee to control the processes and the procedures within the firm.

Respondent 3 argued that there is a strong division of family members regarding accountability. There are family members working in the firm without shares, there are family members working in the

firm with shares, family members not working in the firm without shares and family members who are not working anymore in the firm with shares. All family members with shares are four times a year informed about the strategy, the targets and the results. The other family members, working in the firm are only informed if it is relevant for their function. Further family members are not informed at all about the business.

As already stated family businesses are to a great extent comparable with any other businesses. So also in family businesses it is possible to implement a supervisory board or an advisory board. According to respondent 4 it is due to the law and regulation much easier to implement an advisory. Nevertheless looking to the results of the questionnaire in figure 6 several family-owned businesses have implemented a supervisory board.

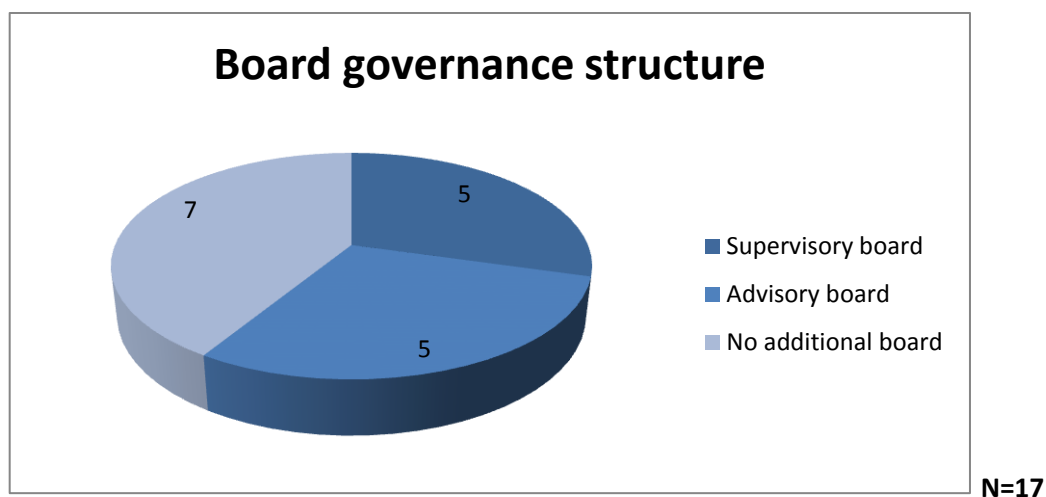


Figure 6. Division of the respondents regarding board governance structure

Overall the elements and structures of corporate governance extracted from literature can be applied in family-owned businesses and are also feasible. However, because no business or family is equal there are various constructions and directions possible that can be followed to implement these elements and governance structures (Matser, 2010). According to respondent 1 most important is that the shareholders can confirm themselves to the chosen direction and are willing to cooperate and share all relevant information with for instance an advisory board.

7.1.4 RQ4: Why are family-owned businesses implementing elements/structures of corporate governance in their company?

Research question four will be answered in this subsection. All companies that have participated in the survey have formulated a mission and a vision. Looking at Table 2 all companies argue that the reasoning behind the mission and vision is to give direction to the company. Further 11 respondents indicating continuity of the firm as an important aspect of formulating a mission and vision. As Respondent 3 stated:

“The mission is a translation of the activities of the firm. This mission statement shows what we as a company are aiming for and what we want to achieve in the future. The vision is more about the continuity and transfer of the business to the third generation”.

Table 2 shows the reasoning for implementing a mission and vision. The researcher expected that all respondents would answer: ensuring continuity of the company, because according to

Matser (2012) this is where family businesses are aiming for. So it is remarkable that all respondents said that one of the reasons is to give a direction to the company but only eleven out of seventeen is doing this to ensure continuity of the company.

Table 2. Mission and vision.

9. Why is there a mission and vision formulated?	Respondents
<i>To give direction to the company</i>	17
<i>To distinguish from other companies</i>	7
<i>For a professional image</i>	1
<i>Good reputation regarding customers and suppliers</i>	3
<i>Ensuring continuity of the company</i>	11

As presented in Figure 6 ten out of seventeen respondents have implemented an additional governance body. In 2005 Den Ouden implemented an advisory board. The most important argument to do this was to create a sounding board for the board of directors. Respondent 4 stated this as follows:

“The role of the advisory board is mainly to examine choices made by the board of directors and sometimes to push them in a certain direction. Furthermore it is a sign to the rest of the world and it can also play a role as independent party when there is something with the family or the business. But most important task is to serve as a sounding board and discuss with the board of directors about choices which have to be made.”

In addition respondent 3 gave his vision on the role of the advisory board related to the role of the board of directors:

“The expertise and experience of the advisory board is filling the expertise gap that the board of directors is facing. The board of directors has their shortcomings and other persons can fill this gap. This is why most businesses need someone with experience and expertise in order to get as board of directions the right body to take decisions.”

Looking to the results from the survey it seems that this statement is confirmed by the respondents. Table 3 shows why the respondents have chosen to install an additional governance board next to the board of directors.

Table 3. Additional governance board.

13. Why is there an additional governance board implemented within the company?	Respondents
<i>To control decisions made by the board of directors</i>	5
<i>To serve as sounding board for the board of directors</i>	9
<i>For a professional image</i>	0
<i>Good reputation regarding customers and suppliers</i>	0
<i>Ensuring continuity of the company</i>	5

Table 3 shows that nine out of the ten respondents have chosen to implement an additional governance board because they can take the advantage of it as a sounding board. This was also the main reason within Den Ouden to install an advisory board. Further five respondents said that the additional governance board is there to control the decisions made by the board of directors and five respondents pointed out that the additional governance board is implemented to ensure the continuity of the company.

Respondent 1 mentioned some differences between a supervisory board and an advisory board in family-owned businesses. He stated that the task of a supervisory board is more controlling and monitoring the board of directors. Further their role as monitoring board is more formal and next to this also much more complex to implement. The articles of association of the company must be changed and it is hard to find commissioners who are willing to participate in a supervisory board in a family-owned business. This has to do with in most cases a lower remuneration and the difficulties that can arise in a family-owned business, such as obtaining full information referring to respondent 1. Looking to Den Ouden and why they have chosen for an advisory board respondent 2 stated:

“Looking at the structure of Den Ouden it doesn’t matter, at least in this construction it doesn’t matter. A supervisory board is more complex to organise and what is the added value? The task of a supervisory board as well as the task of an advisory board is to discuss the decisions initiated by the board of directors. But a supervisory board has officially more authority. Another point is also that some commissioners do not want to participate in a supervisory board and other commissioners do not want to participate in an advisory board. So that is also something to keep in mind but basically I do not care which name we put on this governance body.”

Only eleven of the seventeen respondents are indicating that they are guiding an active risk management policy. This is remarkable because fifteen of the companies are employing more than 100 people and could be considered as large. In a large company an active attitude regarding risk management is favourable in order to reduce risks. In Table 4 is shown why the companies are guiding an active risk management policy.

Table 4. Risk management policy.

18. Why is there a risk management policy within the company?	Respondents
<i>Determine possible risks and make them manageable</i>	11
<i>Create awareness regarding possible risks</i>	7
<i>For a professional image</i>	0
<i>Good reputation regarding customers and suppliers</i>	1
<i>Ensuring continuity of the company</i>	4

Eleven respondents have implemented an active risk management policy in order to determine possible risks in an early stage and think about how to deal with these risks to make them manageable. This indicates that the board of directors are aware of the possible risks the companies can encounter. The second option to answer is in line with the first option. So it is noteworthy that only seven respondents have chosen this answer. Further is it remarkable that only four respondents have chosen the last option, while decent risk management is an important item regarding continuity

of the business. Also because literature shows that continuity is one of the most important issues within family businesses.

7.1.5 RQ5: How do family-owned businesses organize the implementation of elements/structures of corporate governance within their company?

Table 5 is presenting the seven roles within a family business related to the formulation of the mission and vision. It is clear that family members with shares and working in the firm have a large influence on the mission and the vision of the company. On the other hand family members who are not involved in the company have in most cases no influence on the formulation of the mission and vision. Not surprisingly the question about formulation of the financial and operational targets shows a comparable result regarding involvement of family members and non-family members.

Table 5. Formulating mission and vision.

8. Who are involved in formulating the mission and vision?	Respondents
<i>Family members who are not involved in the firm</i>	3
<i>Family members not working in the company but owner of the firm</i>	4
<i>Family members who work in the business but are not owners</i>	2
<i>Family members working in the business and are owners of the business</i>	16
<i>Non-family owners who work in the business</i>	1
<i>Non-family owners of the business</i>	0
<i>Non-family members working for the company</i>	11
<i>Different</i>	1

Respondent 2 stated the following about the involvement of non-participating family members and relatives in the business:

“Family members who are not working in the business don’t know anything about us. This is because there are currently five brothers with several of their children working in and owning the company. So the company together with the number of shareholders is already very large. That is why interference of other family members and relatives is not desirable. Next to this the interests of them is different looking to the working family members and shareholders. So there is no information going to the non-participating family members.”

The results of the questionnaire show that ten companies have implemented an additional governance board. In five cases there is chosen for a supervisory board and in the other five cases an advisory board is chosen. Next to their role as supervisor or advisor it becomes more and more a task to act as a family manager. In every business there are sometimes tensions and conflicts. The ways how they are managed are different. Respondent BDO explains what he means with family management:

“A commissioner is the link between the board of directors and the shareholders, where the number of shareholders is in general larger than the number of directors. The board of directors is 100% committed to the company because they are leading the business and know everything what is

going on in the company. It could be that not all shareholders are even committed because they have different interests in the company. This can lead to difficulties and issues between shareholders and family members. In this kind of situations a commissioner should manage these problems and mediate between the different parties.”

This statement makes clear that each family business with a certain amount of shareholders must think on beforehand on conflicts that may arise and how to deal in this situation. By implementing an additional governance board and construct a formal document like articles of association, possible conflicts can be solved without harming the business or the family. According to respondent BDO and respondent 3 external commissioners are preferred as members of an additional governance board. Next to their independence and experience they add knowledge, fresh ideas and new perspectives to the business.

Next element in the questionnaire is accountability. Respondents were asked to who and how the decision makers of the business are accountable. Looking to the results of the questionnaire it is remarkable that not all the companies are accountable to their shareholders. Only eleven respondents have filled in that they are accountable to their shareholders and one respondent answered that the company is accountable to the general shareholders meeting. Only two respondents have said that they are not accountable to anyone. The companies with an additional governance board are also accountable towards the supervisory board or the advisory board. In Table 6 on the next page the results are presented.

Table 6. Accountability

14. To who are the decision makers accountable?	Respondents
<i>Shareholders</i>	<i>11</i>
<i>Supervisory board</i>	<i>5</i>
<i>Advisory board</i>	<i>5</i>
<i>Family council</i>	<i>0</i>
<i>Different</i>	<i>1</i>
<i>No one</i>	<i>2</i>

Accountability is in some way also related to transparency. Transparency can be reached by open communication regarding stakeholders. In addition the respondents were asked how the family business is communicating the results of the company to direct stakeholders. In Table 7. the results are presented.

Table 7. Communication

15. In which way are the decision makers accountable?	Respondents
<i>Presenting the results to the shareholders, advisory board, supervisory board or family council</i>	<i>15</i>
<i>Presenting the results to the employees</i>	<i>5</i>
<i>Publication of the results on the website</i>	<i>2</i>

The result is not remarkable because most family businesses try to keep most information within the company. In most cases only the shareholders, the advisory or supervisory board and the family are informed by the board of directors. Only five companies choose to present the results to their employees and further two companies publish the results on their website.

Transparency between the board of directors and the shareholders is important to reduce the possibility of a-symmetric information. For the advisory and supervisory board it is essential to receive all the information in order to do their job correctly. According to respondent BDO family businesses are most of the times closed systems. A reason for this closed attitude is related to the fact that family businesses have in general a large amount of private equity. Due to safety reasons the family chooses to keep such facts inside. Respondent BDO indicated the following on this topic:

“What is underestimated but which plays a role, from a family point of view, is safety. Family businesses have in general a large amount of private equity. If they put financial figures about the company on their website it makes them a potential target. Of course this is not common but there are several examples.”

Chapter 8 Conclusion

In this chapter conclusions will be drawn and in subsection 8.1 the general research question will be answered. Next, recommendations will be given and some of the results will be discussed, limitations that might have affected the results of this study will be defined and finally directions for future research will be discussed.

8.1 Conclusion

By providing a literature study and an empirical study this master thesis focused on answering the following general research question:

Why are family-owned businesses implementing elements of corporate governance within their business and how are those elements of corporate governance organized in their company?

It is important to make the organisation aware of the advantages and opportunities regarding family business governance to keep the family together and live in harmony with each other. The following elements of corporate governance can help the family as well as the business in order to survive over a long period of time:

- *Mission statement / Vision.* This element is important regarding the long term strategy of the business. Where is the business aiming for and which roll is the family playing in this picture. It makes clear in which frame the business is acting and what the company's vision is regarding the future.
- *Operational and Financial targets.* Targets in family businesses are mainly about continuity of the business. Of course targets regarding profit and turnover are set but most important is the continuity and transfer of the company to the next generation.
- *Risk management.* Risk management is an important pillar in family-owned businesses. Companies must recognize the effects of the risks. In addition, the probability and the impact of relevant risks must be determined. Companies create a risk management plan with actions and information and communicate this to decrease the possibility of occurrence.
- *Internal control.* Internal control is an important element of corporate governance. Controlling the business and its activities is one of the most important tasks of the board of directors. In many family-owned businesses controlling is present but not formalized in policies and procedures. Companies can formalize the internal control by register policies and procedures in a management system.
- *Accountability.* Each company is obliged to present an annual report with information about activities and financial performance. Within family-owned businesses this information is in general presented to the shareholders and supervisory or advisory boards. Communication to employees creates involvement and an open atmosphere.
- *Monitoring.* Monitoring by an additional governance board is relevant if ownership and management of the company is separated. An independent additional governance board can monitor the performance of the board of directors on behalf of the shareholders and the family. Within a family-owned business it is most common to choose for a

supervisory board or an advisory board depending on size of the business but also the preference of the shareholders.

- *Transparency.* Transparency is the 'glue' of all the core elements of corporate governance in family businesses. Without transparency in the decision making process, problems between family members will arise. Therefore it is necessary to share information on a regular basis and strive for open communication between family members who are working in the firm.
- *External experts.* Independent external experts can advise the board of directors in managing the business. It is possible to install a supervisory board or an advisory board with experts who execute a monitoring/advisory task.

Family-owned businesses are implementing elements of corporate governance to create an environment in which they can discuss and debate with external experts about important decisions and the continuity of the business. Respondents indicate that they have implemented an additional governance board such as a supervisory board or an advisory board as sounding board. Counter arguments and unasked opinions from strongly involved external experts are very useful and will help the board of directors in making decisions which have a great influence on the daily business. As stated above it is important to keep the family together and live in harmony with each other. An independent supervisory or advisory board can contribute to a healthy family atmosphere and perform at the same time as a family manager considering the continuity of the business. The tasks and authority of the commissioners can be laid down in the articles of association to protect the family norms and values.

Results from the literature study and the empirical part show that the focus is on continuity of the firm and commitment to the company. The continuity is reached by values that are characteristic for family businesses such as, continuity of the company by transferring the business to the next generation and a strong relation with their employees and environment. In the case study it became clear that is important to make a separation between the family on the one hand and the business on the other hand, to overcome problems at the expense of performing the business. That is the reason that the family influence is limited to the persons working in the firm with shares. The authority of partners and other relatives with no direct stake in the business are minimized to reduce the probability that problems within the family occur and harm the business or the well-known family name in the region.

The following two subsections will present both the recommendations for family business in general and the limitations of this study and potential directions for future research on the topic of corporate governance within family-owned businesses.

8.2 Recommendations

The conclusions of this thesis can be useful in a managerial way and for future research. In a managerial way for the owners of a family business, because it gives information about why family businesses pay attention to corporate governance or family business governance and how they deal with the different elements of it within their business. Recommendations provided by the researcher about how it should be in case you have to deal with family contain the following elements:

1. The business and the family will evolve over time. Due to growth and an increasing number of family members the business will become more complex to manage. At this moment it is likely to think about independent advisors or an advisory board who can help the company.
2. Make clear rules and agreements to overcome problems now and in the future. This can be done by formulating articles of association especially addressed to the business and the family. In this document agreements about succession and the division of shares can be registered;
3. Recruit outside managers when family members are not capable for higher educated functions.
4. Organize workshops and invite experts to discuss important items such as corporate governance and keep updated about the newest developments;

8.3 Discussion

In every family business there is a kind of family culture present with its own values and traditions. This culture is implicit present as a consequence of the overlapping subsystems of the Three-Circle Model (Gersick et al., 1997) and the disappearing roles of the professional and personal membership over time. However, especially as firms grow and mature, the owners try to separate the business from the family, and see both the business and the family as independent systems, which is in line with Gersick (1999). In this distinction between business and family, overall the continuity of the business comes first. This is remarkable because a balanced emphasis would be the ideal one for the family and the business.

Tensions and conflicts that are characteristics of family businesses are in most cases related to succession of the business to the next generation. Each family member has an opinion and wants to interfere in this process. To minimize tension and conflicts family businesses try to minimize the amount of information regarding not working family members. The other working family members have clear job descriptions, process descriptions and role descriptions.

Where literature is mainly focussing on the implementation and the effect of supervisory boards in family businesses, results show that advisory boards also deserve more attention. According to Matser (2010) advisory boards are suiting better the requirements of the family-owned business. In addition interviewees noted that the need to fill expertise gaps related to for instance succession planning increases as business complexity expands. This particular resource need is unclear when compared with academic literature. On the one hand, it reflects academic literature describing a need for external experts to fill competency and expertise gaps in the family-owned business (Bammens et al., 2010; Corbetta & Salvato, 2004), particularly with business transfers. On the other hand a direct link to agency theory and stakeholder theory can be drawn, as succession planning from an independent third party may help reduce family member interference and family conflicts (Lane et al., 2006).

Corporate governance that ensures the accountability and transparency for all stakeholders is decisive for family businesses. However, especially family businesses must pay attention to implement only those elements that are necessary regarding family management and complexity of the business. All further elements increase costs and at the same time decrease competitiveness. Knowing this, family business owners can anticipate on the level of complexity regarding a possible

prior business transfer and implement an adequate governance structure that will match the requirements of the previous business transfer.

8.3.1 Limitations

There are several limitations in this study. First of all, not each area in the Three-Circle Model is represented by an interviewee in the empirical part of the research, which implicates that not all roles within a family business are taken into account. Insights from other viewpoints in a family business could provide a better picture of the whole setting.

Second, the sample size of the survey consists of 17 firms which is too small to generalize the conclusions for family-owned business in general.

Third, some facets of a family business setting seem naturally for the respondents because they are familiar to it. It is difficult for them to make a distinction between what a consequence is of being a family business and what is not. Moreover, sometimes the answer is a normative statement, how something should be, rather than how it really is. Although these normative statements can be interesting, they are not related to the problem statement.

Fourth, the researcher is familiar with the company that is used in the case study. This means that the researcher already had a lot of knowledge about the company before the interviews took place. Further it is possible that there is knowledge used in this research which comes from the researcher's experience instead of coming from the interviews.

All these limitations could have an impact on the outcomes of this research so further research to this topic and related topics in a family business setting are essential.

8.3.2 Directions for further research

Additionally, opportunities exist for further research next to what is presented here. Suggestions for further research are as follows:

- As noted in this research regarding an additional governance board in a family-owned business the respondents agreed it is wise to implement an advisory board or supervisory board. But what is exactly the added value of an additional governance board within a family-owned business?
- Furthermore, it seems also interesting to investigate what types of companies have installed an advisory board. Further research should make it possible to draw an accurate profile of the companies that make use of an advisory board.
- Another important and related research area is the composition of an advisory or supervisory board within a family-owned business. Important questions are if family members should take a position in such a board and how the selection process of board members should take place to reach a balanced and well-functioning governance board.

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Appendixes

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Appendix I Operationalization concepts Interviews

Doelstellingen	Concepten	Deelconcepten	Vragen
Analyseren van herkenbaarheid en toepassing van elementen m.b.t. goed ondernemingsbestuur en de daarbij horende achterliggende gedachte.	Strategie	Missie – Visie - Doelstellingen	-Wat zijn de missie en visie van de onderneming? -Welke gedachten/ kernwaarden zitten hierachter? -Hoe zijn de missie en visie tot stand gekomen? -Wie zijn er betrokken bij het opstellen van de M - V -Wat zijn de langetermijndoelstellingen van Den Ouden? -Hoe zijn deze doelstellingen tot stand gekomen? -Op welke manier worden de doelstellingen gecommuniceerd binnen de onderneming?
	Beheersing	Risicomanagement Interne controle	-Op welke manier worden risico's voor de onderneming in kaart gebracht? Is er een risicomanagementplan opgesteld? -Wie is er betrokken bij het opstellen van het risicomanagementplan? -Hoe is de interne controle gestructureerd? Auditcommissie? -Op welke manier worden controle mechanismen ingebouwd?
	Controle/Monitoring	Verantwoording Toezicht Specialisten	-Aan wie legt u verantwoording af? Waarom legt u juist aan deze personen verantwoording af? Aan wie worden er verder belangrijke besluiten voorgelegd? -Is er een toezichtorgaan? waarom is hiervoor gekozen? wat is de rol van het toezichtorgaan? -Met welk doel worden er externe specialisten ingeschakeld?
	Transparantie	Wijze van verantwoording afleggen	-Op welke wijze legt uw onderneming verantwoording af? Aan wie worden belangrijke besluiten voorgelegd? -Vindt u dat uw onderneming voldoende transparantie uitstraalt?
Analysen waarom ervoor een bepaalde bestuursstructuur gekozen is	Bestuursstructuur	Raad van Advies	-Kunt u aangeven waarom er een Raad van Advies is geïnstalleerd binnen de onderneming? -Waarom juist een RvA en geen RvC? -Wat is de functie van de Raad van Advies? -Waarom directeur ook in RvA? -Wat zijn de bevoegdheden van de Raad van Advies?

Appendix II Operationalization concepts Questionnaire

Doelstellingen	Concepten	Deelconcepten	Vragen
Analyse structuur respondent	Algemene informatie	- Activiteit - Datum van oprichting - Aantal werknemers - Aantal familieleden - Functie - Generatie	- Wat is de belangrijkste activiteit van de onderneming? - In welk jaar is de onderneming opgericht? - Hoeveel werknemers zijn bij de onderneming werkzaam? - Hoeveel familieleden zijn werkzaam binnen de onderneming? - Wat is uw functie binnen de onderneming? - Welke generatie is momenteel actief als bestuurder binnen de organisatie?
Analyseren op welke wijze corporate governance is georganiseerd in familiebedrijven.	Elementen	- Missie / visie - Operationele en financiële doelstellingen - Interne controle / Toezicht - Verantwoording - Transparantie - Risicomanagement	- Heeft de onderneming een duidelijk missie en visie geformuleerd? - Wie is betrokken bij het formuleren van de missie en visie? - Wie is er betrokken bij het opstellen van de financiële en operationele doelstellingen? - Met wie worden deze financiële en operationele doelstellingen gedeeld? - Doet de onderneming een beroep op een van onderstaande organen? - Aan wie leggen de besluitvormers verantwoording af met betrekking tot genomen besluiten? - Op welke wijze leggen de besluitvormers verantwoording af? - Voert uw onderneming een actief beleid op het gebied van risicomanagement? - Wie zijn er betrokken bij het opstellen van het risicomanagementplan?
Analyseren waarom corporate governance is georganiseerd in familiebedrijven.	Redenen voor implementatie elementen.	- Missie / visie - Interne controle / Toezicht - Risicomanagement	- Waarom wordt er een missie en visie geformuleerd? - Waarom doet de onderneming een beroep op een van deze organen? - Waarom wordt er een risicomanagementplan opgesteld?

Appendix III Introduction letter & Questionnaire

Geachte directie,

Op welke manier wordt er door familiebedrijven invulling gegeven aan het begrip Corporate Governance?

Mijn naam is Jeroen Verbruggen, 25 jaar en woonachtig in Schijndel. In september 2010 ben ik gestart met de opleiding Management, Economics & Consumer Studies aan de Wageningen Universiteit. In het kader van de afronding van mijn studie doe ik onderzoek naar Corporate Governance binnen niet-beursgenoteerde familiebedrijven. Onderdeel van mijn onderzoek is een enquête. Hiervoor heb ik uw hulp nodig als eigenaar, directeur of financieel verantwoordelijke van een niet-beursgenoteerde familieonderneming.

Corporate Governance betekent vrij vertaald goed ondernemingsbestuur en is een begrip dat uitgangspunten en regels omvat ter bevordering van goed bestuur en toezicht. Goed bestuur gaat over het besturen en beheren van organisaties, over verantwoordelijkheid en over verantwoording, transparantie en toezicht.

De vraag die centraal staat binnen dit onderzoek is:

“Op welke manier organiseren familiebedrijven de implementatie van bepaalde elementen van Corporate Governance binnen de onderneming en waarom wordt hiervoor gekozen?”

De enquête is online in te vullen en na de laatste vraag worden met een druk op de knop de antwoorden verstuurd. Indien mogelijk hoop ik van u de antwoorden van deze enquête binnen twee weken te mogen ontvangen. Het invullen kost u slechts 5 minuten. Via onderstaande link is de enquête te bereiken: <http://www.thesistools.com/web/?id=265242>

Ik wil benadrukken dat alle gegevens strikt vertrouwelijk behandeld worden en dat (bedrijfs)namen op geen enkele manier terugkomen in de rapportage.

Indien u meer over dit onderwerp wilt weten, neem dan gerust contact op via e-mail: jeroen.verbruggen@wur.nl of telefonisch: 06-00000000

Ik wil u alvast hartelijk danken voor uw medewerking.

Met vriendelijke groet,
Jeroen Verbruggen

Corporate Governance in het familiebedrijf

Corporate Governance betekent vrij vertaald goed ondernemingsbestuur en is een begrip dat uitgangspunten omvat ter bevordering van goed bestuur en toezicht. Goed bestuur gaat over het besturen en beheren van organisaties, over verantwoordelijkheid en zeggenschap en over verantwoording, transparantie en toezicht.

De enquête bestaat uit 18 vragen waarbij het invullen slechts 5 minuten.

1. Wat is de belangrijkste activiteit van de onderneming?
 - ☐ Handel
 - ☐ Productie
 - ☐ Dienstverlening
 - ☐ Bouw
 - ☐ Retail
 - ☐ Transport
 - ☐ Anders, namelijk.....
2. In welk jaar is de onderneming opgericht?
 - ☐
3. Hoeveel werknemers zijn bij de onderneming werkzaam?
 - ☐ < 50 werknemers
 - ☐ 50 – 100 werknemers
 - ☐ 100 – 250 werknemers
 - ☐ > 250 werknemers
4. Hoeveel familieleden zijn werkzaam binnen de onderneming?
 - ☐
5. Wat is uw functie binnen de onderneming?
 - ☐ Directeur en aandeelhouder
 - ☐ Algemeen directeur
 - ☐ Financieel verantwoordelijke
 - ☐ Anders, namelijk.....
6. Welke generatie is momenteel actief als bestuurder binnen de onderneming? (meerdere antwoorden mogelijk)
 - ☐ Eerste generatie
 - ☐ Tweede generatie
 - ☐ Derde generatie
 - ☐ Vierde generatie
 - ☐ Anders, namelijk.....

7. Heeft de onderneming een duidelijke missie en visie geformuleerd?
- ☐ Ja
 - ☐ Nee (ga verder naar vraag 10)
8. Wie is betrokken bij het formuleren van de missie en visie? (meerdere antwoorden mogelijk)
- ☐ Familieleden zonder belang in de onderneming
 - ☐ Familieleden met aandelen in de onderneming maar niet werkzaam in de onderneming
 - ☐ Familieleden zonder aandelen in het bedrijf maar wel werkzaam in de onderneming
 - ☐ Familieleden met aandelen in het bedrijf en werkzaam binnen de onderneming
 - ☐ Aandeelhouders van buiten de familie die ook werkzaam zijn in de onderneming
 - ☐ Aandeelhouders van buiten de familie
 - ☐ Werknemers van buiten de familie
 - ☐ Anders, namelijk.....
9. Waarom wordt er een missie en visie geformuleerd? (meerdere antwoorden mogelijk)
- ☐ Richting geven aan de onderneming
 - ☐ Onderscheiden van anderen
 - ☐ Professioneel imago
 - ☐ Goede reputatie ten opzichte van leveranciers en klanten
 - ☐ Verzekeren van continuïteit van de onderneming
 - ☐ Anders, namelijk.....
10. Wie is er betrokken bij het opstellen van de financiële en operationele doelstellingen?
(meerdere antwoorden mogelijk)
- ☐ Familieleden zonder belang in de onderneming
 - ☐ Familieleden met aandelen in de onderneming maar niet werkzaam in de onderneming
 - ☐ Familieleden zonder aandelen in het bedrijf maar wel werkzaam in de onderneming
 - ☐ Familieleden met aandelen in het bedrijf en werkzaam binnen de onderneming
 - ☐ Aandeelhouders van buiten de familie die ook werkzaam zijn in de onderneming
 - ☐ Aandeelhouders van buiten de familie
 - ☐ Werknemers van buiten de familie
 - ☐ Anders, namelijk.....
11. Met wie worden deze financiële en operationele doelstellingen gedeeld ?
(meerdere antwoorden mogelijk)
- ☐ Familie
 - ☐ Personeel
 - ☐ Leveranciers
 - ☐ Bank
 - ☐ Raad van Commissarissen (RvC)
 - ☐ Raad van Advies (RvA)
 - ☐ Familieraad
 - ☐ Anders, namelijk.....

12. Doet de onderneming een beroep op een van de volgende organen en zo ja welke?

(meerdere antwoorden mogelijk)

- ☐ Raad van Commissarissen (RvC)
- ☐ Raad van Advies (RvA)
- ☐ Familieraad
- ☐ Geen, (ga verder naar vraag 14)

13. Waarom doet de onderneming een beroep op een van bovenstaande organen?

(meerdere antwoorden mogelijk)

- ☐ Ter controle op besluiten genomen door de directie
- ☐ Om als klankbord te dienen voor de directie
- ☐ Professioneel imago
- ☐ Goede reputatie ten opzichte van leveranciers en klanten
- ☐ Verzekeren van continuïteit van de onderneming
- ☐ Anders, namelijk.....

14. Aan wie leggen de besluitvormers verantwoording af met betrekking tot genomen besluiten? (meerdere antwoorden mogelijk)

- ☐ De aandeelhouders
- ☐ Raad van Commissarissen
- ☐ Raad van Advies
- ☐ Familieraad
- ☐ Anders, namelijk.....
- ☐ Niemand

15. Op welke wijze leggen de besluitvormers verantwoording af? (meerdere antwoorden mogelijk)

- ☐ Presentatie van resultaten aan de aandeelhouders, RvC, RvA of familieraad
- ☐ Presentatie van de resultaten aan het personeel
- ☐ Publicatie van de resultaten op de website
- ☐ Anders, namelijk.....

16. Voert uw onderneming een actief beleid op het gebied van risicomanagement?

- ☐ Ja
- ☐ Nee (druk op knop 'verstuur enquête')

17. Wie zijn er betrokken bij het opstellen van het risicomanagementplan? (meerdere antwoorden mogelijk)

- ☐ Familieleden zonder belang in de onderneming
- ☐ Familieleden met aandelen in de onderneming maar niet werkzaam in de onderneming
- ☐ Familieleden zonder aandelen in het bedrijf maar wel werkzaam in de onderneming
- ☐ Familieleden met aandelen in het bedrijf en werkzaam binnen de onderneming
- ☐ Aandeelhouders van buiten de familie.
- ☐ Werknemers van buiten de familie
- ☐ Aandeelhouders van buiten de familie die ook werkzaam zijn in de onderneming

18. Waarom wordt er een risicomanagementplan opgesteld? (meerdere antwoorden mogelijk)

- Mogelijke risico's in kaart brengen en beheersbaar maken
- Creëren van bewustwording aangaande mogelijke risico's
- Professioneel imago
- Goede reputatie ten opzichte van leveranciers en klanten
- Verzekeren van continuïteit van de onderneming
- Anders, namelijk.....