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Goal structures in family firms: empirical evidence on the relationship between firm and family goals

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**GOAL STRUCTURES IN FAMILY FIRMS: EMPIRICAL
EVIDENCE ON THE RELATIONSHIP BETWEEN FAMILY AND
FIRM GOALS**

Version: May 2009

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WORKING PAPER SERIES



**Center for Entrepreneurial and
Financial Studies**



**GOAL STRUCTURES IN FAMILY FIRMS:
EMPIRICAL EVIDENCE ON THE RELATIONSHIP BETWEEN FIRM
AND FAMILY GOALS**

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GOAL STRUCTURES IN FAMILY FIRMS: EMPIRICAL EVIDENCE ON THE RELATIONSHIP BETWEEN FIRM AND FAMILY GOALS

Abstract

Goal structures in family firms seems of particular interest to the field as the overall orientation and the objectives of family firms are determined in an area of potential conflict between the two subsystems of firm and family. We asked shareholders of German family firms to rate the importance of certain goals in the organization's management. By doing a principal component analysis on the ratings given, we identified four central categories of goals that permit a much more detailed analysis than would a simple differentiation between family-related and firm-related goals. The differences among organizations in the identified dimensions of short-term and long-term family goals, as well as growth- and value-orientated firm goals are then assessed in more detail. Among other aspects, we found the existence of an advisory board to be the strongest driver of goal preferences along these dimensions. Theoretically, our findings indicate that, depending on family firm characteristics, agency and stewardship theory are both useful in explaining the goals of the relevant systems of family and firm.

JEL classification: L21, L26

Keywords: family firms, goal preferences, agency theory, stewardship theory

1. Introduction

Without any doubt, family firms are a unique and important form of business. They are an important engine of growth and prosperity in any economy. Their central contribution to welfare is uncontroversial among business people, politicians or scholars. In the case of Germany, family firms represented 95.1% of all companies in 2006 generating 41.5% of total sales (IfM Bonn 2006).

A distinctive feature of family firms is that the goals underlying their decisions and actions are largely determined by the family and its agenda. In fact, this high degree of family influence in a company's decisions and actions, i.e. in the setting of major objectives, is the crucial characteristic stressed by many scholars in the field in order to distinguish family firms from other forms of business (Chua et al 2003, Klein 2000, Shanker and Astrachan 1996, Westhead und Cowling 1998). It is often argued that in terms of overall goals family firms are usually confronted with an area of conflict in aligning family goals on the one hand and firm goals on the other (Sharma et al. 1997).

However, it is still largely unknown whether one dominates the other in determining the organization's overall orientation and, if so, under which circumstances. These questions are of particular interest because the two systems, family and firm, significantly differ in their basic nature: While families as a social group function on biological-emotional principles, the firm as an organizational system rests on a rational-economic foundation. The motives of the two systems are fundamental to intentions and goals that, in turn, determine actions (Ajzen 1991). Hence, for assessing decisions and actions in family firms it is important to understand the kind of goals that underlie their actual behavior.

Given their importance and uniqueness, family firms are severely under-researched as the object of scholarly work. To date, there is still no comprehensive theory of family firm venturing. Starting point for such a theory must be the goals that family firms pursue, as their specific structure implies a close nexus of the family firm's objectives and the family's very own goals (Chua et al. 2003). Only if this particular circumstance is taken into account and sufficiently characterized, can any effort to specifically research as well as manage family firms be successful (Tagiuri and Davies 1992, Sharma et al. 1997).

To be sure, other scholars like Wimmer et al. (1996), Kotey (2003) or Baus (2003) have already brought forth important arguments concerning the mechanisms that affect goals in family firms. However, to our knowledge there is only scarce empirical evidence in support of

these arguments: Most of the empirical studies on goals in family firms focus on the important topic of efficiency resulting from goals that are taken as a given parameter to be pursued. By empirically testing the relationships between family firm characteristics and their goals, the present paper takes up strands of important previous research that has laid the conceptual ground but has not yet empirically tested its fundamental propositions.

Our discussion of arguments and empirical results indicate that a clear-cut treatment of family and firm goals with agency or stewardship theory is overly simplistic. There is evidence in favor of agent as well as stewardship behavior in both subsystems (family and the firm). Accordingly, the present paper aims at contributing to a sound foundation of family-firm specific theories and research by empirically investigating different dimensions of goals in family firms as well as their main drivers. More specifically, three central issues are tackled: Agency and stewardship theories are drawn on, in order to derive hypotheses on the influence of family control, existence of an advisory board, size, and age of the family firm on the prevalent goal structure within family firms. However, before these hypotheses are tested in a third step, a second issue was to identify relevant dimensions of the prevalent goals in family firms by carrying out principal component analyses on a set of goal preference scores.

The remainder of the paper is organized as follows: To begin with, the conceptual basis of our empirical study is laid down by discussing the two subsystems in family firms and the respective goals and intentions they are said to exhibit. These considerations are enriched by thoughts on agency and stewardship theory in this specific context. Equipped with this conceptual groundwork and a discussion of previous research on goals in family firms, our research hypotheses are developed. After investigating preference structures of family and firm goals by principal component analyses, these hypotheses are tested on a sample of German family firms. The paper concludes with a discussion of our findings and their implications.

2. Theory

2.1 *Subsystems in Family Firms and Their Goals*

A goal is the purpose toward which an endeavor is directed. Goals guide human behavior and embody intentions that, in turn, reflect beliefs and perceptions (Ajzen 1991). Irrespective of the conceptual perspective, individualistic or collectivistic (Braun 2006), the social influence of networks or organizations on goal preferences is enormous.

The key question of the present paper concerns the goals in the specific social structure of family firms. A family firm is defined as a company with substantial family influence that can be exerted by the family via the ownership structure, seats on the management board and/or, if one exists, seats on the supervisory board (Klein 2000; this definition is illustrated in some more detail in the sample section).

In order to understand the emergence of overall goals of family firms it seems useful to conceptualize them as a system consisting of three different subsystems that are depicted as circles (Gersick et al. 1997, Wimmer et al. 1996). This so called three-circle model describes the relationships between diverging interests of family members, the manager, and shareholders (Gersick et al. 1997). These three subsystems of family, firm, and property strongly interact and cannot be assessed independently (Kepner 1983) (see Figure 1).

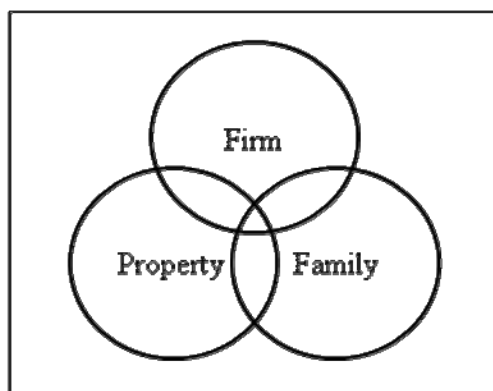


Figure 1: Family Firms in the Three-Cycle Model.

In this paper we specifically focus our analysis on the two subsystems of firm and family, as they strongly exhibit divergent values, goals, principles, norms and rationales (Lansberg 1983). Hence, talking about goals in family firms as an entire system requires the differentiation between the prevailing perspectives of family goals, directly addressing the family subsystem, and the perspectives of firm-specific goals (Baus 2003).

The most intuitive difference is that a family is a social system with its own motives and interests. Hence, such a system seems to be dominated by biological-emotional principles. In contrast, a firm is an organization with an economic purpose and, thus, largely rests on rational-economic maxims (Terberger 1998). Accordingly, it is usually alleged that family goals are geared to central functions of the family, such as reproduction, socialization of the next generation, primary supply with necessary goods, and emotional-affective satisfaction (Pieper and Pieper 1975) (for more examples see Figure 2). Firm goals are typically oriented towards achieving growth of the business (Kotey 2003) (for more examples see Figure 2). Apparently, these different foci result in a variety of tensions and problems.

In this general area of tension between family and firm, overall goals of the entire system have an important role since they determine the relationship between these two subsystems. Overall goals clarify where the family firm and hence the family as well as the firm are heading and provide a guideline for action. However, an agent, e.g. a manager, situated in any of the circles' intersections must satisfy the demands of at the two sides simultaneously.

<hr/> <p>Firm goals</p> <hr/> <p>Main Source: Lumpkin/Dess (1996), Hoy/Verser/Champy (1994), Daily/Dalton (1993), Moravec (1996), Lansberg (1983), Poza (1988)</p>	<p>overall performance goals (e.g. sales, assets, growth, profitability, ROI, levels of innovation)</p> <p>strategic direction of the business</p> <p>leader selection process</p> <p>leadership development programs</p> <p>importance of loyalty to employees</p> <p>non-family professional management roles</p> <p>board of directors role</p> <p>importance of non-family/non-employees on board of directors</p> <p>effectiveness of company hierarchy</p>
<p>Family goals</p> <hr/> <p>Main Source: Dyer (1986), Gersick et al. (1997), Harvey/Evans (1994), Kaye (1991), Ward (1987), Lansberg/Astracham (1994), Whiteside/ Aronoff/Ward (1993), Holland/Boulton (1984), Aronoff/Ward (1992), Tagiuri/Davis (1992)</p>	<p>communication, family harmony, family togetherness goals</p> <p>opportunities for future generations</p> <p>importance of keeping the business in the family</p> <p>importance of keeping family control of the business</p> <p>family values</p> <p>family mission statement</p> <p>ability to challenge other views</p> <p>role of in-laws</p> <p>role of extended family</p> <p>when to sacrifice for the business</p> <p>when to sacrifice for the family</p>

Figure 2: Goals in the Subsystem Firm and Family.

In this regard it is not clear under which conditions family or firm goals take priority over the other, i.e. whether there is a clear preference for one type of goals. While some authors are of the opinion that the basic firm goals are more important than family goals (e.g. McCann et al. 2001), others allege that the concatenation of family and firm goals leads to an often unintentional dominant position of the family's primary interests (Lee and Rogoff 1996). Very often family goals, e.g. dictated by traditions or the aim for reputation, determine the firm's fate even though decisions taken seem suboptimal from an economic-rational perspective (Iliou 2004). Particularly the image portrayed to the outside seems to be a vital objective of the family (Dyer and Whetten 2006). Above all these rather personal goals, there is one commanding objective of the family: To ensure the firm's survival. It is said that in family firms a long-term orientation is adopted, which also implies that short-term objectives, such as shareholder value, are typically given less attention than in non-family firms (e.g. McCann et al. 2001, Miller et al. 2008).

These arguments should have made clear that a generalization of goal priorities in this area of conflict seems difficult if not impossible unless further situation-specific aspects are taken into account (Sharma et al. 1997). Our paper aims to shed some more light on the goal structures depending on family firm characteristics. In order to do so, we must first derive hypotheses on the basis of central theories that seem useful in this regard.

2.2 *Agency vs. Stewardship Theory and Goals in Family Firms*

Two opposing theories might explain the nature of goals pursued in family firms and the role of divergent orientations in the subsystems of family and firm: Agency theory and stewardship theory. As established theories of human behavior in economic contexts, both seem to be appropriate theoretical frameworks for arguing about goals. While agency theory postulates a rational and rather egoistic picture of human intentions and behavior (Jensen and Meckling 1976, Eisenhardt 1989), stewardship theory highlights the human striving for self-fulfilment and the inherent human intention to serve a social group considered to be relevant (McGregor 1960, Donaldson 1990, Donaldson and Davis 1991). In both theories human attitudes and motivations are implicitly seen as antecedents of intentions that are, in turn, the basis of human behavior (Ajzen 1991).

The opportunistic pursuit of individual goals is fundamental to agency theory. Agents have an agenda that is different from that of the principal for which they execute a task. Therefore, the principal has the problem of having to align these (per definition) contradictory goal structures (Jensen and Meckling 1976, Ross 1973). However, in the case of family firms, it is often questioned whether this assumption really applies, as family firms exhibit a high degree of overlap of ownership and management. Consequently, family firms should suffer less from agency conflicts (Jensen and Meckling 1976, Ang, Cole and Lin 2000). Even if goals should differ across family members, it seems intuitively plausible that family members find solutions to these problems more easily through monitoring and control mechanisms (Fama and Jensen 1983).

However, other scholars emphasize that severe agency problems may very well occur in family firms (Schulze et al. 2001). Due to the problem of self-control in privately and closely-held family firms, individual family members may exploit their powerful position at the others' expense (Schulze et al. 2001, Jensen 1998). It is argued that agency problems not only emerge between shareholders and managers but also between majority and minority shareholders (Redlefsen 2004). Hence, family-dominated enterprises are not immune to such

problems, but have to deal with divergent goals of other shareholders, unless the company is totally in the family's hands.

Actually, agency problems could even be worse in family firms given the fact that external corporate governance mechanisms, e.g. the share price, are typically missing in family firms (Alisch et al. 2005). In addition, the close personal ties between family members, initially dominated by consensus, loyalty and altruism (Karra et al. 2006), can also turn into personal struggles, e.g. between generations (Schulze et al. 2001). Further, managers as well as family members in family firms could tend toward nepotism, i.e. the privileged treatment of other family members, thereby increasing agency problems as well. In fact, agency problems might even be intentionally accepted, e.g. if social goals are given priority over economic goals (Chrisman et al 2004, Schulze et al. 2001).

Given reasonable doubts about the pessimistic assumption of human agents that continuously maximize their individual utility, Donaldson (1990) as well as Donaldson and Davis (1991) developed the stewardship theory. It is a concept that explains behavior by economic agents in certain situations that is oriented towards collective rather than individual goals (Davis et al. 1997). The theory argues that individuals behave in accordance with a company's goals if their motivational scheme is dominated by intrinsic and immaterial rewards of self-fulfilment. Further, there must be a strong identification with the firm and its goals (Mael and Ashforth 1992, Davis, Schoorman and Donaldson 1997).

Applied to goal situations in family firms, there could be (at least theoretically) a total correspondence of a manager's and the company's goals. In that case, the successful pursuit of company goals is a necessary prerequisite for individual goal achievement. Hence, such a situation makes any control mechanisms unnecessary (Chrisman et al. 2007) or even counterproductive (Argyris 1964, Corbetta and Salvato 2004). Relationships are then characterized by rationales such as trust and altruism, concepts that are often also attributed to family relationships. Hence, it is barely surprising that stewardship relationships are assumed to dominate in family firms (Corbetta and Salvato 2004, Chrisman et al. 2007, Miller et al. 2008). Given this congruence - family members often acting as managers themselves - stewardship relationships seem to be even more likely, since such managers can be expected to accept the goals of the rest of the family more easily than external managers (Anderson and Reeb 2003).

However, in stewardship-dominated organizations the maxim is to ensure the firm's survival and to maintain the family's control over the organization. If such a stewardship 'culture'

prevails, firms are led and managed with a high degree of continuity, expressed in thorough long-term planning, allowing to keep control (Miller et al. 2008). Further, this culture can be nurtured by making employees adopt the company's goals by motivational measures. The rationale behind this is that a satisfied, supported and valued employee identifies herself with the organization, i.e. aligns her personal goals with those of the firm. This alignment could be enforced by direct personal contact between family and employees: This personification of the impersonal organization "the firm" could increase the employee's personal involvement and finally her willingness to consider the organization's goals to be her own (Miller et al. 2008).

The arguments given above should have made it evident that it strongly depends on the specific system at hand and the specific situation in which it is situated whether agency or stewardship theory is more conducive to explain intentions, goals and behavior (Anderson and Reeb 2003, Lee and O'Neill 2003). It is overly simplistic to assume that the subsystem of the family is per se more likely to host a stewardship culture and faces the subsystem of the firm that is dominated by agency relationships. Further, the goals of firm and family seem to be two distinctive dimensions. But they are not mutually exclusive. There might be family firms in which the importance attributed to both types of goals is above or below the average of family firms. Consequently, reasoning about prevalent goals must take a thorough look at the drivers of goal structures. Which perspective is more appropriate under which circumstances will be explored below in deriving our hypotheses.

In the following it will be built on the above given considerations in order to hypothesize which influence certain firm characteristics have on goal preferences or goal structures in family firms.

2.3 *Family Firm Characteristics and Their Impact on Goal Preferences: Hypotheses*

With increasing *firm size*, i.e. an increasing number of employees and other stakeholders besides the family, the economic success of the firm becomes more and more important. Their needs are covered best if economic firm goals, e.g. profitability from an investor's perspective, are pursued. Consequently, it can be suggested that economic firm goals become more dominant with increasing size (Daily and Dollinger 1993).

In contrast, young and small family firms seem to be more suitable for serving the family's goals. Personal values and needs that cannot be evaluated economically outweigh rationalistic goals. This influence of subject-dependent goals is diluted with an increase in size, as

personal goals are more difficult to enforce in a larger and more complex organization that contains more stakeholders (IfM Bonn 2006). In addition, the family subsystem might become more complex too in larger organizations, resulting in a further weakening of family goals in terms of relative importance for the organization. Hence we pose the following hypotheses:

Hypothesis 1a: With increasing size of the family firm the importance of family goals decreases.

Hypothesis 1b: With increasing size of the family firm the importance of firm goals increases.

It can be assumed that the degree of *influence the family exerts on the firm* has a significant impact on its goal structure. Intuitively, family members shape the culture of the company in such a way that organizational structures marked by trust and identification enabling stewardship behavior are much more likely if family influence is strong. Accordingly, priority might be given to family goals if the family influence is great. (Hofstede et al. 2002, Westhead and Howorth 2006). Alternatively, it can be argued that the firm is usually the family's main source of income; hence personal, family-related goals could be temporarily eclipsed by economic goals, such as strengthening the equity position or the like (Wimmer et al. 1996). In case such a dependency of the family on the firm is given, an increasing family influence would result in a rise of the importance of firm goals.

Alternatively, a strong family position could enable family members to make sure that the primary family goal is pursued. In contrast, a weaker family influence allows other stakeholders to enforce their goals, so that firm related goals, such as growth in order to maximize their own benefit, might increase in importance (Kotey 2003). Hence, we pose the following hypotheses:

Hypothesis 2a: With increasing family influence the importance of family goals increases.

Hypothesis 2b: With increasing family influence the importance of firm goals increases.

Besides firm size and family influence, *firm age* is an important driver of goals. For instance, Gersick et al. (1997) added three time axes to their three-circle model in order to depict the stages of development of the three subsystems. It is usually argued that younger family firms, in which the first generation is still in charge, are dominated by family goals. However, in the course of time, in particular when a second generation takes over control, firm goals gain more and more importance (Westhead 2003). This is because with each new generation the group of family members increases that act passively and expect an appropriate profit from

the investment in the firm, i.e. are interested in economic goals mainly (Schulze et al. 2001). The decreasing emotional involvement of family members transforms the firm into a disposable asset (Baus 2003). Hence, with increasing age, the agency problems and the importance of firm goals increase (Karra et al. 2006). On the other hand, it could be argued that increased personal interest results in an increased willingness to enforce the family's goals, e.g. the payment of higher dividends. Along these lines, Molly and Laveren (2007) argue that family goals gain in importance with increasing age, i.e. with the loss of control from the first to the second family generation. The main argument is that young and small companies are busy with the firm's short-term survival and cannot pursue long-term personal goals. Only when the firm has successfully gone through this critical stage, can long-term and personal goals get into the focus (Gersick et al. 1997, Molly and Laveren 2007). Hence we pose the following hypotheses:

Hypothesis 3a: With increasing firm age the importance of family goals increases.

Hypothesis 3b: With increasing firm age the importance of firm goals increases.

Generally, it can be said, that a firm's governance structure, including the *role of an advisory board*, exerts an influence on the goal structures in family firms (Westhead and Howorth 2006). Apart from the analysis of the overall influence by the family which determines the corporate governance structure of a family firm to a large extent, special attention should be drawn to the question of whether an advisory board exists or not. A potential function of advisory boards is to align potentially diverging interests of share- and stakeholders within a company and thereby balance the power of the firm and family subsystems. Hence, it can be argued that in case there is an external advisory board, the influence of the family on the firm is diminished; this holds in particular if the board is made up of non-family individuals (Westhead and Howorth 2006, Jaskiewicz and Klein 2006). It can be assumed that emotional or personal motives are then replaced by economic goals (Camey 2005). Presumably, this effect is stronger in business-first or family-enterprise-first family firms than in family-first family firms (Sharma and Nordqvist 2008). Altogether we expect the following:

Hypothesis 4a: The existence of an advisory board decreases the importance of family goals.

Hypothesis 4b: The existence of an advisory board increases the importance of firm goals.

3. Empirical Study

3.1 Sample and Variables

Data for this research was gathered as part of an extensive survey of German family firms. Between June and August 2007, 1.816 questionnaires were sent out to enterprises that were identified as family firms according to the concept of Substantial Family Influence (SFI). In line with the arguments presented above, this concept introduced by Klein (2000) considers strong family influence on decisions and actions in family firms a crucial distinctive feature. This idea is translated into a measure of family influence on the company through ownership, management and/or governance. For each firm the family's share (1) of the capital ($Equity_{Fam} / Equity_{total}$), (2) of the seats on the management board ($MoMB_{Fam} / MoMB_{total}$), and (3) of the seats on the advisory board ($MoAB_{Fam} / MoAB_{total}$) are summed up. Given that the family holds at least some share in the firm, i.e. that its share of the capital is not equal to zero, a firm is considered to be a family firm if the SFI measure is equal to or exceeds one. However, a further adjustment of this indicator of family influence was made if a family firm had no advisory board. In this case, the sum of ownership and management shares was multiplied by a factor of 3/2. This procedure was necessary in order to make the family influence comparable between family firms with and without this element of control.

In our final sample of 238 family firms (response rate: 13.1 percent) the average SFI is 2.36 (see Table 1 for summary statistics). The influence on the firm is very often exerted through the direct ownership structure. In 96.6 percent of the firms, the family represents all shareholders (85.3 percent) or at least holds a majority share in the firm (11.3 percent). While 45.4 percent of the family firms in our sample are managed by family members exclusively, 9.2 percent are managed by non-family individuals only. In 11.3 percent of the cases, the management is not totally made up of the family but at least half of the management team consists of family members. The remaining 34.0 percent are managed by teams in which the family only accounts for the minority of managers.

Variable	Obs.	Mean	Std. Dev.	Median	Min	Max
Firm Age	236	69.72	52.01	59.5	7	410
Sales	232	190.27	549.58	65	2	7,000
Dummy Manufacturing	238	0.74	0.44	1	0	1
Dummy Services	238	0.18	0.39	0	0	1
Dummy Other Industries	238	0.08	0.26	0	0	1
Substantial Family Influence (SFI)	231	2.36	0.60	2.33	1	3
Existence of advisory board	237	0.36	0.48	0	0	1

Table 1: Summary Statistics on Firm Characteristics.

According to the family firm definition adopted, the questionnaire was sent to family shareholders of 1.816 privately-held family firms in Germany. As it is crucial for the underlying research questions to capture the perspective and opinion of the family shareholders, the questionnaires explicitly addressed the dominant family shareholder. Contact details were derived from the Hoppenstedt database as well as from a membership list of an association of Bavarian family firms. The questionnaire consisted of 22 questions dealing with general company characteristics and the rating of various goals. As the questionnaire was part of a large research project, there were also some questions concerning financing decisions. Questions concerning the rating of the importance of goals were based on nine-point Likert-type scales in order to get dispersed and nuanced answers. General company characteristics were captured by open or categorical questions.

The average firm age in the sample is almost 70 years. Since the distribution of firm age is right-skewed (up to 410 years old) the median firm age is about 60 years only. Of all 238 family firms, 27.7 percent are still managed by the first generation, while 31.1 and 26.1 percent are led by the second and third generation, respectively. 12.2 percent are in the hands of the fourth generation, and 2.9 percent are even controlled by generations beyond. In case two generations were still involved in the business, members of the older generation were taken as reference since they were assumed to be dominant in their position.

All firms in our sample had sales of 1 million euros or more in 2006. We excluded smaller family firms because we assume the structure of subsystems to be basically different from those in larger companies. The subsystems in small firms might be not pronounced enough to tease out empirical differences. However, the heterogeneity in the sample regarding firm size was still remarkable: Some firms just generate sales of 1 million euros while others generate sales of up to 7 billion euros, leading to an average of 190 million euros and a median of 65 million euros. In terms of size, sample values range from six people up to large companies with 23,000 employees. On average, a company in the sample employed 894 individuals (median: 250 people).

The distribution of the surveyed companies across the presented firm characteristics of size, age and generation suggests a high level of representativeness, as it conforms with previous representative large sample studies in Germany (Klein 2000, Klein 2004). Similarly, the interviewed firms are distributed across a variety of industries, including high-tech

automotive suppliers as well as traditional pasta producers. On an aggregated level, the dominant group is that of manufacturers at 74 percent, followed by family firms in service industries at 18 percent and others at 8 percent.

36.1 percent of the sample firms do have a voluntary advisory board monitoring their actions. In almost one in four companies with such an institution (24.4 percent) no family member belongs to the board. In 45.3 percent of the family firms the family represents only a minority on the board, while the remaining advisory boards (30.3 percent) are dominated by the family.

The dependent variables in our analysis are the *goal preferences of the family firms' shareholders*. Family firm shareholders were asked to rate the importance of several goals on a nine-point Likert-type scale (Alwin 1997). A rating of one was defined as an extremely low importance, while nine marked the highest degree of significance of the respective goal. In addition, they were given the opportunity to name additional goals not listed in the original questionnaire and to provide an additional rating on their importance. More details on the goals assessed are given in the results of the principal component analysis presented in the next section.

3.2 Results

To begin with, a factor analysis was carried out on the goals assessed in the questionnaire. The Kaiser-Meyer-Olkin measures of sampling adequacy between 0.59 and 0.81 indicate that all variables are included in the analysis. The scree-test as well as the Kaiser criteria after a principal component analysis with Varimax rotation and Kaiser Normalization suggest extracting four factors out of ten initial variables. In fact, the results exhibited in Table 2 show that these four factors can be grouped into two types of family and firm goals respectively. The factor loadings and communality of the variables are relatively high (Backhaus 2006). Since Cronbach's alphas appear to be acceptable too, the reliability of the factors seems appropriate for using these constructs as relevant goal dimensions for further analyses. For this purpose the unweighted average for each factor was calculated.

To begin with, the first group of family goals can be divided into long-term and short-term family goals, both exhibiting Cronbach's alphas larger than 0.56. The former factor includes family firms' ratings regarding near-term objectives such as profit maximization or a high living standard. These goals usually concern the generation currently in charge. In contrast, the latter factor stands for long-ranging visions like the successful generational change or the sustainable preservation of family influence. In turn, firm goals can be differentiated into

growth-oriented on the one hand and value enhancing objectives on the other. While firm growth also refers to the preservation or creation of jobs, value means property growth and a rise in company value.

Goals	Factor loading	Communality	Mean	Standard deviation
Family Goals			5.715	1.098
<i>Short-term family goals (Cronbach's alpha)</i>	$\alpha = .561$		4.326	1.298
Short-term profit maximization	.617	.557	4.000	1.837
Employment opportunity for family members	.704	.631	4.120	2.004
Realisation of high living standard	.676	.524	4.870	1.590
<i>Long-term family goals (Cronbach's alpha)</i>	$\alpha = .714$		7.106	1.553
Firm transfer to next family generation	.657	.582	6.360	2.247
Prevention from loss of ownership/independence	.890	.814	7.340	1.923
Prevention from loss of control through external debt holders	.842	.757	7.600	1.641
Firm Goals			6.819	.854
<i>Growth-oriented firm goals (Cronbach's alpha)</i>	$\alpha = .501$		6.736	1.073
Firm growth	.578	.633	6.820	1.261
Preservation and creation of jobs	.809	.702	6.660	1.387
<i>Value-oriented firm goals (Cronbach's alpha)</i>	$\alpha = .574$		6.902	1.093
Property growth	.817	.746	6.760	1.364
Increase in company value	.720	.602	7.030	1.258

Table 2: Results of Principal Component Analysis

Before testing our hypotheses, another ‘preliminary’ result can be drawn from the comparison of rated importance between the two aggregated goal categories. Concerning family goals it seems indeed that long-term objectives with an average rating of 7.11 out of 9 dominate short-term goals with their average rating of 4.33. This comparison seems to support previous findings of other scholars, who claim that stewardship-based motivational structures are quite dominant in family firms (Miller and LeBreton-Miller 2006, Corbetta and Salvato 2004). However, in terms of firm goals, both groups are rated almost equally with a sample average of 6.74 and 6.90 out of 9 respectively.

In order to test the developed hypotheses, OLS regressions were executed. The factors of family and firm goals drawn from the component analysis were regressed on the independent and control variables. In fact, the hypotheses that were derived for preferences concerning family and firm goals as a rather homogeneous group can be investigated in a more detailed manner by distinguishing between short-term and long-term family goals on the one hand, as well as growth- and value-oriented firm goals on the other.

The specified models do not indicate any violation of the Gauss-Markov assumptions (Wooldridge 2005). However, in order to meet concerns regarding multicollinearity between

the SFI, containing the family's influence on the advisory board, and the binary variable for the existence of an advisory board and in order to check for effects hidden in the SFI, two models were specified for each dependent variable: One including the SFI as explanatory variable and another with two separate variables of the family's share in equity and their influence on the management. Together with the family's influence on the advisory board, omitted for the given reasons, they initially made up the SFI.

All regression models on family goals, shown in Table 3, are highly significant with a highest probability of having no explanatory power of 0.2 percent for model two on short-term family goals. Further, the corrected R-squares of about 8 percent up to more than 18 percent explained variance indicate that central drivers of the goal preferences were identified. All control variables (four binary variables on family generation in management, industry, and number of shareholders) were excluded for not having any significant effect on the relationships in the models.

The most eye-catching result is that firm age has a statistically significant effect on goal preferences, irrespective of family goal and model specification. However, while being significant at the 0.05 level for any model, its impact is weak: Each additional year of firm existence reduces the importance of short-term goals by 0.004 and increases the attributed rating for long-term goals by the same value.

A larger effect on the goal preferences was exerted by the size of the company. While showing no statistically significant effect for short-term visions, the positive impact on long-term orientation is statistically and practically large with estimated coefficients of about 0.25 at 0.01 significance levels. Both variables seem to be positively related to a long-term goal preference while negatively associated with short-term goal preferences (this statement must also be taken with caution for the negative impact of size in a short-term context).

The degree of family influence, measured by SFI, has a strong practical positive impact on family goal preferences. However, due to large standard errors, parameter coefficients in both models are statistically insignificant. The alternative model specifications, in which the SFI as an aggregated variable is replaced by its components, i.e. family share of equity, family share of management, and existence of an advisory board, also reveal that the family's control over the management has a strong, yet statistically insignificant positive effect on goal preferences for short- and long-term family goals in family firms. Interestingly, the existence of an advisory board has by far the strongest and most significant impact on the importance attributed to family goals: If there is an external advisory board, the preference for short-term

as well as long-term family goals declines by one third or almost half a score on the nine-point Likert-type scale. This effect is uncovered in the second model, breaking down the SFI.

Independent Variables	<i>Family goals</i>		<i>Short-term family goals</i>		<i>Long-term family goals</i>	
	Model 1		Model 2		Model 1	
	B (SE)		B (SE)		B (SE)	
SFI	0.222	0.147			0.178	0.138
Family share of equity			0.093	0.575		0.129
Family share of management			0.268	0.233		0.219
Firm Age	-0.004	0.002**	-0.004	0.002**	0.004	0.002**
Firm Size	-0.02	0.06	-0.025	0.061	0.252	0.056***
Existence of an advisory board	-0.212	0.193	-0.306	0.171*	-0.345	0.181*
Sample size N	188		188		188	
Corrected R-squared	0.084		0.075		0.166	
F	5314,00		4046,00		10314,00	
p-value of F-Test	p= .000		p= .002		p= .000	

*p<0.10; **p< 0.05; ***p< 0.01;

Table 3: OLS regressions: Family goals.

In summary, a positive impact of firm size is found for long-term family goals, but not for short-term goals. Since a negative relationship was expected, hypothesis 1a is rejected for both types of family goals (rejecting hypothesis 1a). No effect is detected for family influence in both cases (rejecting hypothesis 2a). Concerning firm age, the suggested negative effect on family goals can be confirmed with regard to short-term goals. Yet with regard to long-term family goals, a opposite effect is identified (accepting and rejecting hypothesis 3a). The results are unambiguous for the influence of the existence of an advisory board: There is a negative influence on both groups of family goals (accepting hypothesis 4a).

Unfortunately, model quality of the regressions on firm goals cannot keep up with those on family goals (see Table 4). While the models on value orientation are significant at a 0.05 level and explain at least about 4 percent of the goal preference variation, the models on growth-oriented firm goals exhibit p-values of 0.28 and 0.16 respectively and explain only less than 2 percent of the dependent variables' variance. For this reason, the only notable result of a significant negative impact of an implemented advisory board on growth-oriented family goals has to be treated with some caution. However, models one and two on value-related goals reveal that the size of the firm has a high (0.188 and 0.186 respectively) and significant (0.01 level) positive influence on a preference for these objectives (rejecting and accepting hypothesis 1b). Given the poor model quality and low significance level of the parameters, hypotheses 3b, 2b, and 4b are rejected.

Independent Variables	<i>Family goals</i>		<i>Growth-oriented</i>		<i>Value-oriented</i>	
	Model 1		Model 2		Model 1	
	B (SE)		B (SE)		B (SE)	
SFI	-0.062	0.15			-0.177	0.138
Family share of equity			0.939	0.58		0.093
Family share of management			-0.217	0.235		-0.183
Firm Age	0.001	0.002	,000	0.002	-0.003	0.002
Firm Size	0.01	0.061	-0.01	0.061	0.186	0.056***
Existence of an advisory board	-0.395	0.197**	-0.359	0.172**	-0.213	0.181
Sample size N	188		188		188	
Corrected R-squared	0.006		0.016		0.044	
F	1275,00		1619,00		3168,00	
p-value of F-Test	p= .281		p= .157		p= .015	

*p<0.10; **p< 0.05; ***p< 0.01;

Table 4: OLS regressions: Firm Goals.

The model results are robust to the inclusion of four binary variables accounting for the first, second, third, fourth or even higher degree family generation in charge. This also holds if controlling for industry and the number of shareholders.

4. Discussion

The factor analysis has shown that it is not sufficient to distinguish between family and firm goals. An even more fine-grained treatment seems appropriate. The sample of German family firms suggests that a differentiation is essential between short-term and long-term family goals and growth-oriented as well as value-oriented firm goals. This finding sheds new light on the classification of goals, especially family goals, as it demonstrates that family goals may vary a lot and may even have conflicting orientations. Additionally, the findings suggest that short-term family goals rather follow the agency theory argumentation, as they reflect individualistic motivations that may conflict with firm goals. In contrast, the existence of long-term family goals rather indicated stewardship-based organizational structures, as the organization as such and its preservation and protection are emphasized.

In fact, even this distinction might be too fuzzy for certain issues: For instance, families seem to have quite divergent opinions on the importance of short-term and long-term goals. The average ratings of the factors (see Table 2) indicate that the latter are indeed more important to families than near-term targets. This result supports the findings of other scholars, who claim that many family firms exhibit stewardship structures (Miller and LeBreton-Miller 2006, Corbetta and Salvato 2004), which in our opinion, favor long-term oriented family goals rather than short-term oriented family goals.

Moreover, by asking family shareholders of family firms to rate the importance that is attributed to certain goals, we intended to measure the extent to which the overall organizational direction is driven by the subsystems of family and firm given certain firm characteristics. To start with, family firms of different size exhibit divergent ratings of goals. With increasing firm size, long-term family goals as well as value-oriented firm goals gain in importance. This observation hints at an area of conflict in larger family firms: The family seems to have an increased awareness of the prevention of control and ownership but at the same time the firm is directed at the growth of property and an increase in company value. Actually, this finding supports the assertion made by other scholars (e.g. Kotey 2003) that firm goals become more important when more agents are dependent on the firm's success. The family aims at securing the value of the firm as the long-term basis of their welfare.

The impact of firm age on short-term and long-term family goals is antithetic: Our results support studies by Molly and Laveren (2007) as well as those by Westhead and Howorth (2006) in that long-term family goals become more important over time. It is suggested here that one central reason for this link is that the number of family members involved in the family firm grows with firm age. A higher number of family members having a stake in the firm constrains the individual family member's opportunity to maximize her personal short-term utility.

While family firms with an advisory board seem to be more cautious regarding the importance of the goals assessed in the present study than family firms without such an institution, the impact is strong and significant for long-term family goals. This result argues for an agency problem between stakeholders who exert an influence on the family firm that dilutes the family's power. This is an interesting finding, in particular since model 2 in Table 2 controls for the effect of the family's share. Hence, independent of the shareholder structure, i.e. the ratio of family members' share in equity to non-family members' share, an advisory board per se diminishes the role played by family goals. This means that in the present sample the advisory board does not have the function of securing the long-term survival of the business by aligning interests as suggested by some scholars (e.g. Lange 2005).

5. Conclusion

The research described in this paper provided some evidence on the assertion that simply distinguishing between goals of the family and goals of the firm seems insufficient: Factor analysis has revealed that there are rather two useful dimensions, i.e. the time dimension

(short-term and long-term) of family goals and another dimension (along value-orientation and growth-orientation) regarding firm goals.

In terms of preferences in these four dimensions, the strongest driver in our sample is the existence of an advisory board that diminishes the importance that is attributed to short-term as well as long-term family goals. Further, larger family firms have a preference for long-term family goals and value-oriented firm goals. The orientation towards long-term goals is also found for older family firms that put more attention on value as a firm goal.

It has been shown that future research and any discussion on family firms should clarify which perspective it adopted: Any model of action or behavior must make clear whether it starts with preferences or goals of the family or the firm. The reason being that there might be a significant difference in terms of intentions as antecedents of any action (Ajzen 1991).

Like any other study, the present one is also subject to a number of weaknesses and limitations. First, the sample of family firms is only drawn from Germany. Due to the uncontroversial role that culture plays on goal preferences, the results are surely not applicable to family firms in any other economy. However, the general issues and areas of conflicts should be similar in most European countries and the U.S. Secondly, only one single person representing the family shareholders filled in the questionnaire. Hence, a subjective bias must be presumed, probably aggravated by answers according to social desirability instead of personal judgment.

Future empirical research could try to overcome these methodological caveats. Furthermore, more evidence must be gathered on the role of the advisory board in family firms: For instance, our data does not tell whether these boards direct family firms towards a specific goal structure or whether family firms with certain objectives are simply more likely to establish such a committee. The direction of the causal relationship is yet to be determined. In addition, an international representative sample might shed some more light on the representativeness of family firms in different countries and the important issue of cultural differences in goal preferences. Further, beyond trying to better answer the same questions, continuative matters could be tackled: First of all, it seems sensible to attach the intentions investigated here to certain types of business behavior, i.e. to actions (Ajzen 1991). For instance, the present study has not only confirmed that long-term family goals are considered to be important in family firms but also that this applies to larger family firms even more so than to smaller family firms. The question intuitively arises whether there are typical strategic or operative activities, which can be observed in larger family firms, that serve in the pursuit

of these goals? In addition, it would be interesting to know whether such actions lead to ineffective or inefficient decisions from the perspective of other stakeholders, such as investors or the public.

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