



JÖNKÖPING UNIVERSITY  
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# Opening the Black Box of Financing Decision-Making

Exploring the Process, Actors and Arenas in Family Firms

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## Master Thesis within Business Administration

Title:	<b>Opening the Black Box of Financing Decision-Making</b> Exploring the Process, Actors and Arenas in Family Firms
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### Abstract

Financing decisions are an important topic for all firms. Especially in family firms this topic is of high interest due to the interplay of financial and non-financial goals. Recent studies so far have resulted in inconsistent findings, as the process of how these decisions are made is not well understood.

This thesis aims to provide an understanding for how the financing decision-making process unfolds in family firms. Our approach is guided by strategy-as-practice and the concepts of strategic actors and arenas in order to uncover where the process unfolds and who is involved. Based on a case study approach in the German context, the study suggests that the financing process develops through the alternation between formal and informal arenas. While in formal arenas conformity is desired, in the informal arenas friction is tolerated and practitioners can discuss openly their opinions and ideas.

Our findings add to the theoretical understanding of micro-activities in family businesses by outlining external arenas and actors as an overlooked component. Furthermore, the study contributes to current research about financing in the context of family firms by highlighting the role of norms and how they influence usable practices. In addition, this thesis is of interest to practitioners who are involved in financing decision-making processes in family firms as it provides them with better understanding how to approach the process.

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*Anna Maria Bornhausen & Konstantin Benedikt Kuehl*

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# 1. Introduction

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*In the introduction, we give a short overview about our research field and point out which problems this study will focus on.*

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Financing decisions are highly important in companies as the access to capital is crucial for enabling growth and survival of the firm (Beck & Demircuc-Kunt, 2006; Molly, Laveren, & Jorissen, 2012). In order to get new capital for financing these projects, decision-makers in the companies need to choose consciously the right financing instrument. Extensive research deals with how firms decide on their financing structure (Parsons & Titman, 2008). With the help of profit-oriented models such as the trade-off theory and the pecking order theory (Myers, 2001), research tries to explain how companies finance themselves.

However, financing in the context of family firms is rather distinct (R. C. Anderson, Mansi, & Reeb, 2003; Wu, Chua, & Chrisman, 2007) as other factors than only profit-maximization can influence the decision-making (Gallo, Tapies, & Cappuyns, 2004). It is hence important to investigate further how family companies take financing decisions since depending on the definition, up to 90% of global GDP (gross domestic product) is created by family-owned businesses (FFI, 2016). Therefore, family firms deserve particular attention as “financial decision-making represents a central challenge to family firms worldwide” (Koropp, Kellermanns, Grichnik, & Stanley, 2014, p. 319). It is generally assumed that family firms prefer internal funding as they want to not lose control over the company to external financiers (Sirmon & Hitt, 2003). However, when researching the actual financing structures of family firms, we receive inconsistent findings. Some studies underline the preference for internal financing (González, Guzmán, Pombo, & Trujillo, 2012), while others find similar or even lower levels of internal funds when compared to non-family firms (Tappeiner, Howorth, Achleitner, & Schraml, 2012). So far, research has not succeeded in accounting for the deviating results regarding financing in family firms.

We believe that our missing understanding arises from a limited knowledge of how the actual financing decision is made. Therefore, we investigate the financing decision-making process in family firms. We make use of a case study approach, with Germany as a fitting empirical context, as 91% of companies are controlled by families (Stiftung Familienunternehmen, 2015). Our study answers calls to expand our knowledge about family firms by focusing on micro-activities (Chrisman, Chua, & Sharma, 2005) and processes in family firms (Astrachan, 2010) and allows us to gain insights into how financing decisions unfold. We set out to analyze what is actually happening during the decision-making process, which persons are involved and where they meet and interact. Strategy-as-practice (Whittington, 2006) is found to be a promising approach for researching strategy in the context of family businesses (Nordqvist & Melin, 2010). Therefore, we argue that by using this perspective as our theoretical lens combined with the concept of strategic actors and arenas (Nordqvist, 2012), we can contribute with a case study approach to understand how financing decisions are made in family businesses.

As the later part of our thesis is driven by very rich data, we give them justice by using a narrative style in our findings to present them. Additionally, our analytical framework and discussion are guided by the deep insights that we received from our field research. Therefore, the headlines throughout this study are designed in a very analytical way in order to provide the reader with a guideline to follow through our study. By selecting headlines for the analysis that refer back to the theoretical framework, the readers can better understand how our study connects both empirical and theoretical findings.

## 2. Background

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*In this section, we provide an overview about the state-of-the-art research regarding financing decisions and how this topic is treated within the family business context. This background section starts with an overall introduction to guide our research as a funnel approach and to point out where a need for further research exists.*

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### 2.1 Introduction to Financing Decisions

When companies are in need of more capital for instance to finance a new product line or to invest in innovations, key decision-makers in the company have to decide how to finance these projects. Financing decisions entail the choice between internal funds, debt and equity (Koropp et al., 2014). The decision for one of these financing choices will influence the capital structure of the business, which is the proportion of debt and equity. Therefore, deciding on a capital structure for a firm is in our eyes equivalent to making a financing decision, as this decision will affect the capital structure and vice versa. Deciding on a capital structure and hence how to finance a company is “a fundamental functional (financial) decision which should support and be consistent with the long-term strategy of the firm” (Barton & Gordon, 1987, p. 67) and has therefore received extensive attention in the field of finance. Numerous studies try to explain how firms decide on their capital structure and how differences between the firms’ structures can be explained (Parsons & Titman, 2008).

In early research, it is assumed that all kinds of companies aim to maximize their outcomes and that decision-makers act completely rationally (Matthews, Vasudevan, Barton, & Apana, 1994). Based on these assumptions, two main theories are used to explain how companies decide on their capital structure: trade-off theory and pecking order theory (Myers, 2001). The *trade-off theory* emphasizes the role of taxes in choosing a capital structure (Myers, 2001). When firms use debt instead of equity, the total after-tax return to the shareholders will increase. Because of these tax advantages, a company will take on additional debt until it reaches a balance in regards to the costs of possible financial problems such as bankruptcy due to its incapacity to pay back its debt (Beattie, Goodacre, & Thomson, 2006). According to this theory, all firms would thus be moderately indebted, even though the level of debt might vary over time in order to constantly stay at an optimal balanced level (López-Gracia & Sánchez-Andújar, 2007).

According to the *pecking order theory*, companies generally prefer financing with internal cash flows to taking on additional debt, and debt is preferred to equity (Myers, 1984). This hierarchy in choice is fueled by the information asymmetry between managers and external shareholders (Myers, 2001). When firms require new debt, the debt investors such as banks have a lower information disadvantage and their valuation of the firm’s current situation is less prone to misinterpretation than it would be for equity investments (Beattie et al., 2006). Therefore, investors are more willing to issue debt and do so at a better cost for the company.

Following one of the two theories, we would expect to find a clear process that shows how to determine which financing source to choose. However, empirical studies demonstrate that not all companies act accordingly to one of those theories (Beattie et al., 2006) and the two theories can also be seen as complementary (Fama & French, 2005; Leary & Roberts, 2010). Although it is possible to determine the value-maximizing capital structure for a company, we see that companies oftentimes decide differently. Already in the 1980s, research assumed that other elements besides profit maximization play an important role in the decision-making process as well as the managerial choice of decision-makers (Barton & Gordon, 1987).

These streams of literature have gained further attraction over the course of the last decades. There is an increasing number of studies that aim to demonstrate which factors influence the capital structure decision-making, and how we can explain deviations from the profit-maximizing theories that we observe in companies. Just one of many factors is the substantial power of decision-makers in how they select a financing source. The characteristics of managers are thus one of the factors that can explain differences (Matthews et al., 1994). Also the attitudes, beliefs, norms and intentions of the decision-maker affect the decision for a capital structure (Matthews et al., 1994).



## 2.2 Financing Decisions in the Field of Family Businesses

Even though most papers dealing with the financing decisions of firms implicitly regard ownership as important for the decision, they oftentimes disregard the central role that family businesses and their owners hold in many economies and they also come short of highlighting the preferences and norms of family firms. This is all the more surprising as “financial decision-making represents a central challenge to family firms worldwide” (Koropp et al., 2014, p. 319). We will therefore shed light on why the decision-making of family firms might be different from what research about non-family firms has shown by approaching the topic from a new perspective.

### 2.2.1 Family Business Definition

Family firms are worldwide a significant economic force and an important engine of the global economy (Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). It has been theoretically and practically proven that on the one hand, family firms have their own characteristics and differ from non-family businesses, but also differ among each other (Sharma, Melin, & Nordqvist, 2014). For instance, they tend to be more complex and are influenced by emotions and non-economic goals (Whiteside & Brown, 1991). Although academic research about family firms has increased substantially (Sharma, 2004), to this day, there is no predominant definition of a family firm used by researchers (Chrisman, Chua, & Sharma, 2005; Dawson & Mussolino, 2014). In an extensive review, Harms (2014) clusters 267 journal articles with different definitions of family firms but no exclusive definition emerges. Scholars apply a range of different explanations and terms, which are based on contextual issues, the examined subject or the time of research (Harms, 2014).

Nevertheless, it is necessary to clearly define what we regard as a family firm in order to prevent ambiguity. For the purpose of our study, we follow the well-known definition of Westhead and Cowling (1998), which is also applied in several other studies (amongst others Blanco-Mazagatos, De Quevedo-Puente, & Castrillo, 2007; Naldi, Nordqvist, Sjöberg, & Wiklund, 2007; Nordqvist, 2012). In our eyes, family firms are defined as “a family-controlled firm is defined as a firm where one family group controls the company through more than 50 percent of the ordinary voting shares, the family is represented in the management team, and the leading representative of the family perceives the business to be a family firm” (Nordqvist, 2012).

### 2.2.2 Financing Preferences of Family Businesses

In our literature review, we see evidence that due to the specific characteristics of family firms, family businesses apply different ways of financing. Several articles point out that family businesses are rather conservative in their financing choices and strongly prefer internal financing (Sirmon & Hitt, 2003). Poutziouris (2001) demonstrates that small and medium-sized family firms in the UK rely heavily on internal financing by re-investing retained profits. According to Zhang, Venus & Wang (2012), family businesses prefer an internal financing strategy in order to keep ownership and control of the company and to keep from diluting their owner structure. López-Gracia and Sánchez-Andújar (2007) find a pecking order within small family companies which shows that family businesses prefer internal debt over external debt, and debt over equity financing. This pecking order (Myers, 1984) holds true in family firms due to the cost of capital, risk aversion and especially the preference for keeping ownership control (González et al., 2012). Also extensive research about family businesses in Europe as well as in Canada reveals that family firms prefer debt over equity as a financing source (Crocì, Doukas, & Gonenc, 2011; King & Santor, 2008). External equity is seen as a financing source of last resort for family businesses (Koropp et al., 2014).

The involvement of family in the management and/or ownership of the company decreases the propensity to use external equity as a financing method in order to not endanger the family control over the business (Wu et al., 2007). Wu and colleagues (2007) show further that when family firms however integrate equity financing, they prefer private to public equity financing as this decreases possible agency costs between majority and minority shareholders. These findings are also confirmed in the context of French small and medium-sized family firms (Maherault, 2004).

However, by following the pecking order the company's investment for growth can stagnate (Zhang et al., 2012). Molly, Laveren and Jorissen (2012) show that particularly future generations are reluctant to invest with external equity even at the cost of forgoing growth opportunities as they wish to hold on to family control. Amore, Minichilli and Corbetta (2011) show that after the appointment of a non-family CEO, a significant increase of debts will take place. CEOs use this fresh money for further growth investments (González et al., 2012). Nevertheless, a financing strategy that focuses on internal funding can also be economically beneficial, since negotiation costs and agency costs for family firms are minimized (Dawson, 2011; Wu et al., 2007). Mostly, the communication between management and owner is informal, trustful and direct and enables short decision-making processes (Blumentritt, Keyt, & Astrachan, 2007). Hence, a CEO of a family business should be characterized by professional competencies and interpersonal skills, which foster a trustful relationship with the owner family in order to create long-term wealth for the company (Blumentritt et al., 2007). Further the CEO of a family firm has to find a balance between the financial and non-financial goals of the family business (Berrone, Cruz, & Gomez-Mejia, 2012) and make financial decisions that will support those goals.

As discussed before for non-family firms, the pecking order hypothesis does not always hold true in real life (Beattie et al., 2006; Fama & French, 2005; Leary & Roberts, 2010). Not surprisingly also family firms do not behave homogeneously and some firms possess capital structures which do not follow the pecking order (for examples see Pindado, Requejo, & De La Torre, 2015), leading to heterogeneous capital structures (Koropp et al., 2014; Tappeiner et al., 2012). Researchers address these differing results by identifying and analyzing what is further influencing the choice of financing. These influence factors are based on observable characteristics of the family, the firm, or external conditions, which are illustrated in the next section.

### 2.2.3 Influence Factors of Financing Decisions in Family Firms

Owners require a rate of return oftentimes lower than it would be for non-family owners when they are aligned in their business interests and hence build a cohesive ownership group (Adams, Manners, Astrachan, & Mazzola, 2004). This is due to the fact that family owners are satisfied with lower monetary returns than market value since they also receive non-financial value from the existence of their family firm (Zellweger & Astrachan, 2008). Given this required rate of return on their ownership stakes and the levels of debt and equity in the firm, research has shown that family firms have a different cost of capital than non-family firms (McConaughy, 1999). Therefore, factors such as the family control over the business, the objective of the owners and the planning and growth orientation of the owner family can influence the perceived cost of capital and hence the choice of financing source.

Additionally, the culture of a family business and the emotional value that family members assign to the business can impact the cost of capital with which financing decisions are made (Astrachan & Jaskiewicz, 2008; Zellweger & Astrachan, 2008). The culture consists of the norms that the family and particularly the decision-makers hold. Especially if family members share a vision and have congruent norms it can strongly influence the decision-making (Mustakallio, Autio, & Zahra, 2002). Moreover, the personal attitudes of the owner-manager which are embedded in the context of the family business can impact the financial decision-making (Koropp, Grichnik, & Kellermanns, 2013). Therefore, the choice of financing is also steered by the norms and attitudes of family members (Koropp et al., 2014).

Furthermore, family firms apply longer planning periods for their investments than non-family firms (Zellweger, 2007) due to their long-term orientation (Kets de Vries, 1993; Lumpkin & Brigham, 2011). Traditional valuation of investments do however not take into account the significance of longer time horizons in valuing alternatives (Zellweger, 2007). Hence, the long-term orientation can also function as an influence factor on financing decision. Moreover, factors such as age and education of the owner influence the decision which form of financing to choose (Vos, Yeh, Carter, & Tagg, 2007). With increasing work experience, the social ties and network of family business members grow and impact the preference for certain sources of financing (Vos et al., 2007). This goes back to the social capital that is created over time and which can facilitate for example access to loans at lower cost.

Also the different generations and their effect on financing decisions in family research have received ample attention in research. However, the results are mixed so far. For example, in small and medium-sized family firms no direct influence of the generation on the capital structure has been found (Molly et al., 2012). When more generations join the family business, a higher level of agency costs exists but these costs can be balanced by a broader financing structure (Blanco-Mazagatos et al., 2007). Furthermore, the dispersion of ownership can influence financing. In times of market growth, the relationship of debt and the number of ownership holders is namely curvilinear which means that up to a certain point of ownership dispersion the level of debt decreases before the level increases again (Schulze, Lubatkin, & Dino, 2003).

Romano, Tanewski and Smyrniotis show that in family firms “decisions regarding [the] type of finance are based on a complex array of social, behavioral, and financial factors” (Romano, Tanewski, & Smyrniotis, 2000, p. 303). Although the authors advance the research about influence factors in financing decision empirically, this field of research requires still more attention to gain better understanding how such factors influence investment and financing in family firms (Astrachan, 2010).

### **3. Problem**

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*In this section, we introduce our problem which we have derived before from the current state of research. We explain the topic of our study and why it deserves to be studied.*

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As we have shown before in section 2.2, many different approaches try to shed light on how financing decisions are made in family firms. In our review, we have pointed out that financing decisions on the one hand are driven by the valuation of the best financing choice. In family firms on the other hand, this decision is further effected by financing preferences and specific influence factors. However, family firms do not make homogeneous financial decisions (Koropp et al., 2014). Studies show that family firms decide differently than what we would expect (Romano et al., 2000). These conflicting results could stem from basing research on incomplete or incorrect assumptions (Tappeiner et al., 2012). Even though we know what influences financing decisions in a family firm, research is still short of explaining why the actual decision differs for family firms.

As most research about financing decisions is of quantitative nature, it is important not to overlook crucial drivers of the decision-making by concentrating too much on generalizable variables (Tappeiner et al., 2012). In our eyes, quantitative research is narrowing down the ability of researchers to explore context-sensitive and complex relationships (Miles, Huberman, & Saldana, 2013). It comes short of depicting meanings and processes of the organizational life. We want to position our study as enrichening the findings about financing decisions based on quantitative research, by enlarging our research field through qualitative research.

In our eyes, the shortage of understanding why family firms arrive at heterogeneous financing decisions, stems from the fact that we do not know how the financing decisions are actually made. Research has focused on what influences the decision but has ignored the actual decision-making process. Beattie and colleagues (2006) argue that a better insight about the decision process will provide us with a better comprehension of why capital structures differ. We believe that by better understanding how the actual decision is made and how the decision process evolves over time, we can shed light on how family firms end up with a financing decision.

## 4. Purpose and Research Questions

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*Following from the problem statement, our purpose narrows down our scope as we demonstrate which specific aspects of the topic are investigated in our study. The research questions are a translation of the purpose to add clarity and enhance the understanding of what we aim to achieve in this research.*

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The purpose of our thesis is to explore how financing decisions are made in family businesses and how the decision-making process evolves. Furthermore, we investigate which actors play a role in the decision-making process and where and how they interact during the process. We are not only interested in the key decision-makers of the companies but we want to find out who the persons are that are involved in the process and hence influence the evolution.

Our purpose translates into the following research questions which we aim to answer through our thesis:

1. How does the financing decision-making process evolve in family firms?
2. Which actors play a role in this process?
3. Where and how do these actors interact during this decision-making process?

With this approach, we also address the call by Chrisman, Chua and Sharma (2005) to advance the research about family firms by focusing more in detail on the activities that are actually conducted. Our study is also in line with future research directions as outlined by Astrachan (2010) as we focus on the processes in family firms. Furthermore, by investigating the role of family and non-family actors in the process, we make sure to design an “interesting” study for the family business field as demanded by Salvato and Aldrich (2012).

## 5. Frame of Reference

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*In the frame of reference, we introduce our theoretical perspective which we use to answer our research questions. It allows us to analyze and make sense of our findings in the empirical part of our study.*

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### 5.1 Decision-Making in Family Firms

Dating back to the middle of the 20<sup>th</sup> century, scholars have tried to explore how decisions are made in business and how the best possible decision can be achieved (Buchanan & O'Connell, 2006). Especially in the business context, strategic decisions have the power to affect the long-term survival of a firm and hence the fate of many individuals who are connected with the company. As we have pointed out in the background section, family firms have particular characteristics that call for a special look on how they are making decisions. Nevertheless, the role and influence of family on decisions has been scarcely researched (Astrachan, 2010). In the following, we integrate some of the research that sheds light on how decision-making takes place in family firms.

The presence of family in a business can have a strong impact on the business as it shapes governance and management decisions (Fiegener, 2010). In their role as owners, family members can exert control over the company and its assets (Carney, 2005) and can thus reconcile ownership with management (Ibrahim, McGuire, Soufani, & Poutziouris, 2004). Chua, Chrisman and Sharma (1999) point out that family members can influence decisions and targets through governance, ownership and management. Additionally, the norms that are held by the family affect the individuals and therefore their decision-making (Mustakallio et al., 2002). Hence, it is necessary to account for how family members can influence decision-making.

Especially the role of owner-managers calls for attention as both business and ownership converge in this role. Decision-making is strongly influenced by the values and attitudes of the owner-manager (Heck, 2004) since family businesses depend often strongly on the owner-manager as a single decision-maker (Feltham, Feltham, & Barnett, 2005). Especially if the founders are present in the business side of the family firm, they can exert major influence on the strategic behavior of the firm (Kelly, Athanassiou, & Crittenden, 2000), sometimes even when they have already left the company (Davis & Harveston, 1999). Thus the involvement of certain persons in the family firm seems to have a far reaching influence.

Also the sheer involvement of family members can have an impact regarding the possibilities to choose from when making a decision (Chua, Chrisman, Kellermanns, & Wu, 2011). Their involvement can namely improve the possibility of attaining external debt because family social capital can facilitate the relationship with lenders. This has been proven true both for larger family firms (R. C. Anderson et al., 2003) and for new ventures (Chua et al., 2011). Family firms can make thus better decisions as they have more opportunities than non-family firms do.

Basco and Pérez Rodríguez (2011) point out that decisions in family firms can follow either a family or a business orientation. The authors find that the best business results can be achieved when a combination of both orientations is applied in the decision-making process. Yet, coming back to the financial decisions, it is not clear how such an approach would look in practice. A part of the family orientation is that family businesses pursue oftentimes not only financial but also non-economic goals which we can explain among other through the socioemotional wealth theory (Gomez-Mejia et al., 2007). Family firms apply a sequential logic when trying to reach their financial and non-financial aims, such as profitability and control goals (Kotlar, Fang, De Massis, & Frattini, 2014). This means that family firms try foremost to achieve a certain level of profit in order to ensure their longevity and only when this goal is reached do family firms try to keep control over the business within the family. We know much less however about how such goals and decisions are actually taken by family firms, and which actors – also external to the business – are involved in them. Further, it still remains unclear, how actors with different levels of power influence the whole process and where they meet to take decisions. Thus, we propose to focus more strongly on how financing decision actually come into being.

## 5.2 Concept of Rationalities

Besides exploring the process of how a decision-making process is conducted, it is also important to understand the individual motivation and behavior of the involved actors, since the decision-makers are ultimately responsible for the outcome of the process. Family businesses can make decisions that appear from an economical point of view as unsound but calling the behavior of family firms thus irrational comes short of considering the whole nature of a family firm. Already Max Weber (1978/1922) claimed that people follow different rationalities in their behavior. Hall (2002) critically states that almost no decision follows only an economic rationality in the context of family firms. In order to get a more holistic picture of human life, she introduces two more rationalities: genuine and expressive rationalities which focus respectively on relationship and self-fulfillment purposes. Hall (2002) argues that the single rationalities can interact and even reinforce or contradict each other. She concludes that genuine and expressive rationalities are more important than economic rationality in a decision-making process of a family firm.

We agree that it is misleading to follow binary thinking and to classify economically oriented behavior as rational and everything deviating from it as irrational. We rather see the concept of pluralist thinking as a possibility to enrich our understanding of phenomena under research. In the following, we will introduce some theories specific to the characteristics of family business which might play a role in the financial decision-making process.

### 5.2.1 Socioemotional Wealth

An example of how different rationalities influence family businesses can be seen through the theory of socioemotional wealth. As touched upon before, in a non-family business context, managers tend to make rather opportunistic and economic decisions (Nordqvist, Sharma, & Chirico, 2014), while in family firms decisions do not always follow a purely economic rationality (Berrone et al., 2012).

Family firms aim namely to achieve not only financial but also non-economic goals (Gedajlovic, Carney, Chrisman, & Kellermanns, 2012). This interplay between the different goals is centered in the theory of socioemotional wealth (Gomez-Mejia et al., 2007). Socioemotional wealth refers to those elements of a family firm which are of non-financial nature and meet the affective needs of the family members. Those needs include for example the conveying of identity, the exercise of family control and the longevity and heritage of the business (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010; Dawson & Mussolino, 2014). This theory demonstrates why family members are keen on engaging in and keeping a family business besides financial motives. It is important to note that different family businesses and even members of the same family firm pursue different aspects of socioemotional wealth and with different levels of intensity (Berrone et al., 2012). For our research, we can thus expect that socioemotional wealth influences the financing decision-making process through different rationalities.

### 5.2.2 Long-Term Orientation

One important component of socioemotional wealth is the long-term orientation of the company. Lumpkin and Brigham (2011) define long-term orientation as prioritizing rather long-range results of decisions and actions over short-term outcomes. They introduce three dimensions, which contribute to an understanding of a long-term orientation of a family business; *Futurity* deals with the execution of a long-time strategy, meaning that a company takes steps to achieve a desired and planned future (Lumpkin & Brigham, 2011). *Continuity*, is related to the belief that what is rooted in the past has also utility for the future. This dimension occurs in long-term relationships to employees, suppliers and customers. The third dimension, *Perseverance*, deals with the belief that some investments need time to grow to become successful and valuable for a company (Lumpkin & Brigham, 2011), which can manifest itself in the financial decision-making process.

## 5.3 Strategy-as-Practice

Financing decisions are important considerations for the strategic work that evolves in a company as all endeavors require funding. In order to have a successful long-term strategy it is hence necessary that the financial strategy of a company is in line with its overall organizational strategy

(Barton & Gordon, 1987). Therefore, we can regard financing decisions to be an integral part of a firm's strategy. A rather traditional perspective sees strategy as something that exists, that companies 'have', and that sets the directions of endeavors in a company (Whittington, 2006). In strategy research, the focus has been for a long time on the contrariness of content and process, instead of realizing the intertwinement of both (Johnson, Melin, & Whittington, 2003). Strategy is not only about what is being implemented but also at the same time about how it is executed. Johnson and colleagues propose in their editorial that strategy is seen "from the bottom-up, from the activities that constitute the substance of strategic management" (Johnson et al., 2003, p. 14). Strategy research should not neglect who is the strategist and how they shape strategy work through their daily operations. Human action needs to become a central part of strategy research (Jarzabkowski, Balogun, & Seidl, 2007); the focus should be on the practitioners and what they are doing (Whittington, 1996). An activity-based approach will thus enable us to better understand strategy (Whittington, 2003).

Such an approach is used by the strategy-as-practice (SAP) approach, which regards strategy not as something that a firm has but as something that a firm does. In other words, SAP explores the "doing of strategy, who does it, what they do, how they do it, what they use, and what implications this has for shaping strategy" (Jarzabkowski & Spee, 2009, p. 69). It is about the everyday mundane work of developing a strategy (Vaara & Whittington, 2012). This theory puts the individuals working for a company in the focus of research and highlights the way their attitudes, behaviors, and interrelations shape outcomes in the strategic process (Jarzabkowski & Spee, 2009). Already in the 1990s, Whittington stated that there is still a lack of knowledge about what the strategists in a company actually do (Whittington, 1996). A lot has been discovered since then but still many things remain unknown in the actual doing of strategy or *strategizing* (Johnson et al., 2003).

Following SAP, strategizing needs to be seen in its context since the practitioners are acting in accordance with the socially constructed behaviors that are shaped by the social institutions in which the actors are located (Jarzabkowski et al., 2007). In other words, activities are not occurring in isolation but have to be seen in their wider context. In this line, Seidl and Whittington (2014) advise against 'micro-isolationism' where micro-activities are explained as single incidents. However, intra- and extra-organizational phenomena are highly intertwined (Whittington, 2006). It is one of the strengths of SAP that it is able to capture a rich picture of situated phenomena (Jarzabkowski & Spee, 2009). Therefore, a practice perspective on strategy will enable us to better comprehend the connection between what is happening in an organization and its surrounding.

The origin of SAP can be traced back to several theoretical points of view (Johnson, Langley, Melin, & Whittington, 2007) and is largely developed from the process perspective of strategy (Mintzberg, 1990; Pettigrew, 1990), which sees strategy rather as a process of formulation and implementation. Some even question if SAP is really different from the process perspective or simply post-processual (Chia & MacKay, 2007). Nevertheless, a shortcoming of the process perspective is that it is "still insufficiently sensitive to the micro" issues (Johnson et al., 2003, p. 5). As the purpose of our thesis is to explore the micro-activities of strategists in family firms we believe that SAP is thus a very valid theoretical starting point for our research.

SAP allows us to view strategy from a more holistic point of view. In order to achieve this, the SAP field concentrates on studying strategy from three different angles: practitioners, practices and praxis. The three perspectives are interrelated and when they come together strategizing occurs (Jarzabkowski et al., 2007). For classifying the three P's we will rely on Whittington's understanding and definitions of the concepts (Whittington, 2006) as particularly SAP research in the early days oftentimes suffered from ambiguous terminology (Johnson et al., 2003).

Practitioners are those persons who actually do the work concerning strategy (Whittington, 2006). They are essential in the implementation of practices as they are the carriers of practices; each practitioner has a set of practices which can be applied during the strategy process (Whittington, 2006). We can further classify practitioners to be either an individual or a group and to be either working inside or outside the focal organization (Jarzabkowski & Spee, 2009). This means that research can explore both what a specific person is doing (e.g. the Chief Financial Officer – CFO) and a classification of persons (e.g. the financing department). In terms of

organizational boundaries, strategy practitioners can be both internal (e.g. the middle manager) and external (e.g. consultants). In their literature review, Jarzabkowski and Spee (2009) highlight that external practitioners are always investigated on an aggregate level and not as individuals. Oftentimes, research focuses only on executives when exploring strategy, however, lower-ranked employees such as middle managers can also have essential impact on strategic processes (Balogun & Johnson, 2004) and should hence not be neglected.

Practices are routines and norms embodied in the company that are used to accomplish the strategic work (Whittington, 2006). They can be of social, symbolic or material nature and oftentimes take a particular role in the strategy process (for a discussion of the role of meetings in strategy see Jarzabkowski & Seidl, 2008; for a discussion of material artifacts see Jarzabkowski, Spee, & Smets, 2013). However, there is no dominant view of what practices in the SAP research actually comprise (Jarzabkowski & Spee, 2009) and it is hence difficult to holistically classify all practices used in firms. Usually companies apply different bundles of practices that are interrelated and it is challenging to separate clearly one practice from another. It is important to understand that practices are not static tools but are dynamic and constitute the means of doing strategy (Schatzki, 2006). Strategists can adapt and change old practices or connect existing ones and in some cases even introduce new ones (Whittington, 2006). Still, most practices are internalized in the company and are applied repeatedly. It is rare that completely new practices are introduced which makes it even more important to understand the effect of each practice (Whittington, 2006).

Praxis refers to the flow of work and activities with the goal of creating strategy over time; it is what practitioners actually do (Whittington, 2006). Episodes of praxis can be best understood as something that is done, such as talking, analyzing or meetings. A praxis episode will only be effective when the practitioner uses the right practices. This underlines how essential it is to treat practitioner, praxis and practice as highly interrelated (Whittington, 2006). The praxis perspective concerns several levels where strategy occurs as a stream of micro-activities which connects the practitioners with the wider institutional context where actions take place and to which the activities also contribute (Jarzabkowski & Spee, 2009). Three different levels of praxis can be explored: micro, meso and macro (Jarzabkowski & Spee, 2009). The micro praxis concentrates on specific actions of strategy, such as a meeting, and how individuals perceive them. The focus of meso is on the organizational activities like a strategy process, while macro explores the praxis on an institutional level, oftentimes for a whole industry.

Since the stream of praxis episodes develops over time (Whittington, 2006), SAP is very suitable for our purpose of exploring the process of financial decision-making. We are also interested to find out which practitioners apply which sets of practices during the process. Therefore, we argue that the SAP theory is a very valid starting point for providing us with better understanding on what is happening during the financial decision-making process.

## 5.4 Strategic Actors and Arenas

In his research, Nordqvist (2012) combines the SAP theory with the evolvement and execution of strategy processes in family firms. By using this micro-perspective he demonstrates who the strategists in a family firm are and where and how these practitioners meet. This approach answers the call for more research about strategic processes in family firms (Nordqvist, 2012) and for more insights on where strategic actors interact (Brundin & Melin, 2012).

As in family firms the interactions between the persons play a particularly important role, SAP allows to focus on their micro-behavior and attitudes. Nordqvist (2012) approaches strategic processes from two new angles: strategic actors and strategic arenas in family firms. Strategic actors are defined as practitioners who are highly involved in the strategic process. Following the wording of SAP, strategic actors and practitioners are in our eyes identical as they are the persons advancing strategic processes. Examples can include the Chief Executive Officer (CEO) or the owner-manager (Ericson, Melander, & Melin, 2001) but also several other types of strategic actors with different roles (see figure 1).



		Role	
		Internal to firm	External to firm
Actor	Family member	Family owner, CEO, manager, employee	Board member, retired manager, spouse, child, other relative
	Non-family member	Minority owner, CEO, top manager, employee	Board member, network actor, advisory board member, consultant

Figure 1 – A Categorization of Strategic Actors in Family Firms

A special form of strategic actor is the Simmelian stranger (Nordqvist, 2012) or as already introduced in 2008, the known-stranger (Nordqvist & Melin, 2008), who combines characteristics of being both family and non-family member as well as internal and external to the company. Simmelian strangers can be characterized as persons who are trusted and respected by other actors, but – at the same time – are independent to make decisions within and in combination with different arenas (Nordqvist & Melin, 2008). This allows them to deliver objective expert advice while at the same time keeping a certain degree of closeness to the family which provides the possibility to be more straight-forward (Nordqvist, 2012). Thus, those actors are “neither too close, nor too far, from the other actors with whom they interact” (Nordqvist, 2012, p. 31) and hence are able to be quickly involved in strategic processes and be active in different arenas (Nordqvist & Melin, 2008). A practical example of a Simmelian stranger would be a consultant who enters the company on a regular basis as a board member and who, due to her or his specialist knowledge and the long-term relationship to the family is able to highly influence the strategic process. However, Nordqvist (2012) also stresses that sometimes the interplay between closeness and distance is not sufficiently balanced which can especially occur over a longer period.

In a company-wide view, a strategic arena is defined as the venue where strategic actors meet and shape the strategy, which is created through conversations and negotiations (Ericson et al., 2001). Strategic arenas can be internal or external to the company as well as informal or formal in their nature. The arena for developing strategy can arise in many different situations and locations (see figure 2).

		Activities	
		Informal	Formal
Arena	Family context	Ad-hoc meetings at home, family meetings (dinners, etc.) casual conversations	Family council, annual shareholders' and other formal family meetings
	Firm context	Ad-hoc meetings, casual conversations	Board, advisory board, TMT, shareholders' meetings, other formal meetings

Hybrid Arenas

Figure 2 – A Categorization of Strategic Arenas in Family Firms

Strategic arenas can be well used to explain how strategic processes evolve (Melander, Melin, & Nordqvist, 2010). Since the focus of strategic arenas lies on the conversations and dialogues around strategic issues, it is possible that strategic arenas appear simultaneously and across several hierarchical levels (Achtenhagen, Melin, Müllern, & Ericson, 2003). Nordqvist (2012) notes that particularly informal meetings tend to be more creative and can result in groundbreaking ideas regarding the strategy of the firm. Oftentimes, informal and formal strategic arenas are interrelated and can influence each other significantly. Hendry and Seidl (2003) explain that both informal (e.g. coffee machine conversations) and formal arenas (e.g. annual meetings) are important and need to be fully acknowledged. However, the mix between both arenas can also lead to an arena confusion for the strategic actors when roles and responsibilities are not clearly defined between the strategic arenas (Nordqvist, 2012). Family actors are used to discuss and develop strategic issues in informal meetings which allows them to make faster and more adaptive decisions; therefore, the role of formal strategic arenas in family firms appears to be of less importance in strategy settings (Nordqvist, 2012). Furthermore, Nordqvist (2012) identifies so-called hybrid arenas, which aim to break free from formal settings but due to their planned nature still hold characteristics of formal events. These hybrid arenas combine dimensions of being internal and external as well as informal and formal at the same time. Investigating how different arenas could play a role in the financing decision may be very telling, especially regarding the involvement of external actors.

It becomes apparent that it is beneficial to classify strategic actors and arenas through a range rather than a dichotomy. Hence, the interplay between arenas and actors is essential for a holistic approach of a strategy process (Brundin & Melin, 2012). That is why we use Nordqvist's concept as a further theoretical lens in our study. Nordqvist (2012) critically concludes that shifts can occur between formal and informal arenas over time and changes in dominant family or non-family actors are rarely linear.

## 5.5 Model of the Financing Decision Process in Family Firms

Deriving from the theoretical perspectives introduced before, our conceptual model of financing decision processes in family firms (see figure 3) guides our empirical research.

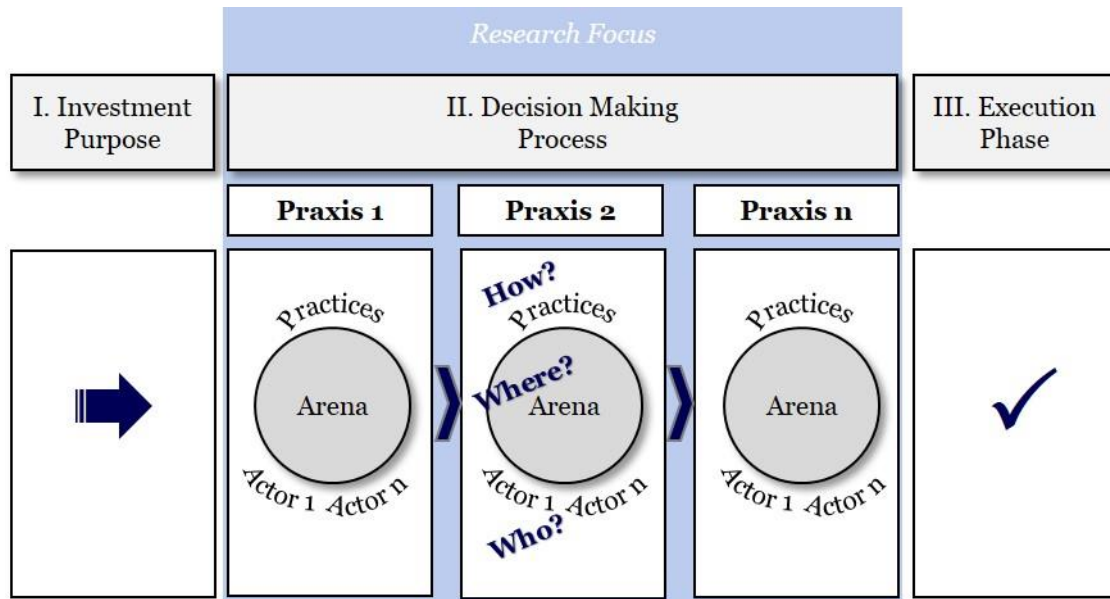


Figure 3 – Model of the Financing Decision Process in Family Firms

We argue that each financing decision process starts with an investment purpose (I) that the family firm wants to realize and ends with a final decision on how to finance which then initiates the execution phase where the financing instruments are executed (III). The focus of our study lies on the process between the purpose and the final execution; we want to find out what is happening in a family firm when decisions are made. Therefore, we propose the above model in which we portray the decision-making process as a linearly evolving sequence of several praxis episodes (II). Each praxis episodes takes place in specific arenas where two or more practitioners/actors meet and strategize. As the family firm possesses norms and routines that guide the behavior and action of individuals, we suggest that the actors can use different practices in the arenas.

As shown in the model, each component enables us to answer one of our research questions, while the overall evaluation of the process allows us to answer our first research question of how the financing decision-making process evolves in family firms. This model is the starting point of our empirical research where we fill our model with empirical data in order to shed light on the financing decision-making process in family firms.

## 6. Methodology

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*This chapter explains the methodological approach of our study. We point out how our choices regarding methodology influence the data collection and analysis. Our goal is to give insightful and reflective arguments on why our study comes into being as it does.*

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### 6.1 Research Philosophy

As the purpose of our thesis is to explore how financing decisions are made in family firms, we argue that an interpretivist philosophy enables us best to meet this purpose and answer our research questions. Following the interpretivist philosophy, multiple socially constructed realities exist and humans interpret their own roles and the roles of others in order to make sense of it (Orlikowski & Baroudi, 1991). Since we are interested in the process, the actors and the places of decision-making, this philosophical stance prepares us to understand the highly complex involvement of individuals and circumstances. More specifically an interpretivist philosophy enables us to investigate how these actors subjectively perceive their role in the process (Gephart, 2004) and to understand the perspective of our research subjects.

Particularly for the research of family businesses, applying an interpretivist philosophy can be very beneficial as this stance allows us to grasp the complexity and characteristics of family firms (Nordqvist, Hall, & Melin, 2009). Nordqvist, Hall and Melin (2009) point out that a detailed and deep exploration of phenomena in family firms is suited for providing new insights about the individuals, their motives and relations, which are of particular importance in family businesses. These characteristics of interpretivist philosophy for family business research benefit also our thesis since we are interested in understanding the decision-making process through the individual accounts of the participants who play a role in this process (Nordqvist et al., 2009).

Our usage of interpretivism becomes apparent throughout our thesis. For instance, when reviewing existing literature, we do not take for granted the findings stated by other researchers as facts but challenge their research from our own perspective and consequently judge their relevance to our purpose. This approach shows also in the formulation of our research questions. We do not solely rely on research gaps, which are based on what other scholars claim; we rather question the common way of researching financing in family firms since it comes short of explaining the actual behavior of individuals. Therefore, we follow a different approach to research financing by focusing on the process. By doing so, we see ourselves in the middle of what Sandberg and Alvesson (2011) title gap-spotting and problematization. Gap-spotting refers to creating research questions based on findings of previous research, which the authors claim will thus lead to less innovative and interesting insights (Sandberg & Alvesson, 2011). Problematization is contrary to this concept, as it bases research questions on the rethinking of common knowledge and can lead to groundbreaking findings. We position our study between these two extreme ways of thinking about research questions. On the one hand, our research questions are rather problematization-driven since we concentrate on the process, a new theoretical starting point for researching our topic. This allows us to rethink the traditional ways, of how financing decisions have been researched so far. On the other hand, after having formulated our research questions, we went back, applied gap spotting, and looked for previous research that pointed out the need for further research that is answered in our study. This approach was chosen, as we want to arrive at new and insightful findings while simultaneously positioning our study in the tradition of previous theories. We argue that this supports also the quality of our findings as we can present new insights while still pointing out how they are connected to what researchers found out before us.

Furthermore, in our empirical research we focus on analyzing the data from different points of view and try to create knowledge by interpreting the perspectives of our respondents. The interpretivist philosophy facilitates our study since we gain an internal perspective on the actions and behaviors of the participants which enable us to better understand why the decision-making process in a family firm evolves the way it does.

## 6.2 Inter-Subjectivity

As we see our philosophical stance as clearly interpretivist, it is important to clarify what we mean when we state our aim to understand the different perspectives of our participants. Therefore, we introduce the concept of inter-subjectivity and point out how it influences our study. Subjectivity refers to an individual's understanding of the surrounding world, which is only held by one person, while objectivity assumes that everyone shares the same understanding of reality. In our eyes, this dichotomy dismisses many opportunities. In line with our philosophical stance, we follow the belief that a continuum exists between subjectivity and objectivity; that our perception does not have to fall into one extreme. We argue that an understanding can be shared by more than one person but does not have to be shared by everyone. This is in line with the concept of inter-subjectivity which proposes that meaning of reality is mediated through social interaction (K. T. Anderson, 2008). As we engage with other individuals, we create a shared understanding of reality. The concept of inter-subjectivity is about the sharing of intellectual content such as feelings or thoughts with others (Zlatev, Racine, Sinha, & Itkonen, 2008) and thus connecting with others. Inter-subjectivity can have different meanings and consequences in different research fields, hence we point out that we focus solely on the philosophical understanding (Blackburn, 2008).

Particularly in qualitative research, where verbal accounts are analyzed, inter-subjectivity can bear pitfalls (Smaling, 1992). By relying on inter-subjectivity in analyzing the findings of our study, we have to be aware that also gaps in understanding can exist (K. T. Anderson, 2008). We have to appreciate that although we believe to share an understanding with our participants as we interact with them, intended or accidental nuances of different perceptions might appear. We mainly use inter-subjectivity in line with our philosophical stance and apply it to make ourselves as well as the readers better understand our underlying assumptions that guide our study. We argue that this is of particular importance as we are two researchers conducting the study and should thus minimize or recognize the significance of gaps in our understanding.

## 6.3 Research Approach

Most of the conducted research strategies combine an interpretivist philosophy with an abductive approach, since it allows constantly moving forth and back between framework, data sources and analysis and thus is most suitable for our research purpose as well (Dubois & Gadde, 2002). This "matching" process is an interplay between an inductive and a deductive approach, since it requires a pre-understanding and screening of already existing theories, which is a significant part of the deductive approach (Van Maanen, Sørensen, & Mitchell, 2007). Additionally, it also contains parts of an inductive approach, where light is shed on a new phenomenon. In general, an inductive approach relies on grounded theory, in which new theory is derived from empirical data (Dubois & Gadde, 2002). Van Maanen et al. (2007) state that an abductive approach contributes to high quality research, since it begins with an "unmet expectation and works backward to invent a plausible world of theory that would make the surprise meaningful" (Van Maanen et al., 2007, p. 1149). Dubois and Gadde (2002) argue that theory cannot be understood without empirical observation and vice versa. Therefore an abductive approach is beneficial, as it combines the systematic character of the empirical world with theoretical models.

In contrast to this, some researchers – mostly reductionists – criticize the abductive approach, as they state that it does not deal with any definite probabilities or likelihoods. Other researchers argue that abduction cannot be seen in the context of justification (Plutynski, 2011) or that it might be difficult to find the right balance between theory and method (Van Maanen et al., 2007). However, the main focus of abduction is "not concerned exclusively with testing or confirmation but with the extended strategic process of discovery and investigation of hypotheses worth exploring" (Plutynski, 2011, p. 18). Hence, we argue that it is impossible to conduct an abductive research which is based on priors and likelihoods.

For this reason, we start our research by evaluating relevant literature. During the process of data collection as well as during the review and evaluation process we go constantly back to the literature to find patterns in theory and to get a deeper understanding of the empirical evidence.

## 6.4 Practice Research

As explained in our Frame of Reference, we apply strategy-as-practice as our lens to investigate our research questions but SAP will also further influence our method in conducting our study. SAP can be in fact seen on three different levels as discussed by Orlikowski (2010): empirically, theoretically and philosophically. The first level, the empirical type, sees practice as a phenomenon which means that a practice is something that can be studied. The theoretical level means that SAP can be used as a perspective to investigate something in reality. The last level, the philosophical stance, concerns a practice ontology and claims that practices constitute reality which means that actors are a product of the practices that they use (Orlikowski, 2010). The three levels are not mutually exclusive but rather depict different assumptions about how powerful practices are to form the world (Haag, 2012).

We believe it is important to clearly position us and our research in terms of which levels of SAP we apply. Practice as philosophy overreaches our understanding of what constitutes reality. As presented before we are guided by an interpretivist philosophical stance which leads us to see reality as socially constructed. By believing that only practices constitute reality, we would fall short of capturing reality in its complexity as it is perceived by individuals. Our research meets clearly the second level of SAP, practice as a perspective. As outlined in much detail before, we use SAP as our theoretical starting point to investigate what is really happening in companies during the financing decision-making process. Additionally, we also position our research as matching the first level of SAP, the empirical approach. This means that in our eyes, micro-activities are very much worthy of being studied in detail. Our study contributes to the claim that practice matters and that it is beneficial to better understand what is going on in organizations by researching what practitioners do in practice. Therefore, SAP will not only be an important part in our theoretical frame but also guide our method as it allows us to focus in detail on the different activities in a business.

## 6.5 Research Strategy

Research on financing decision processes in family firms is still unexplored and our purpose is to provide researchers and practitioners with a deeper understanding which leads to an exploratory research purpose (Mack, Woodsong, McQueen, Guest, & Namey, 2005). Robson (2002) describes this approach as suitable for areas which are still little understood and not well explored. Hereby, researchers want to seek new insights and analyze phenomena from a new perspective. Due to a flexible study design, it is beneficial to generate ideas and hypotheses for future research. Hence, exploratory research allows to answer the questions: 'why' and 'how' (Baxter & Jack, 2008). The researchers support this direction as they state that exploratory research is useful in studies in which the evaluation has no clear, single set of outcomes and is rather multifaceted. To answer our research questions, we need to focus on exploring the financing decision processes and the involved persons and places. As we have discussed before, an exploratory approach will enable us to shed light on these phenomena from a new angle. For this purpose, a rich set of data is needed. Qualitative research is therefore a suitable choice of research method for our research since we can gain in-depth understanding of persons and everyday situations in companies (Reay, 2014). Qualitative research allows us to get closer to our subjects of interest and provides us with the opportunity to understand reality from their perspectives (Bansal & Corley, 2011; Pratt, 2009). We believe that a qualitative method is thus also highly suitable for our interpretivist stance. Additionally, in the research of family businesses, qualitative methods are increasingly used as they are able to grasp the complexity of the characteristics of family firms (Reay, 2014).

In order to obtain the required richness of data, a case study strategy is appropriate since its accounts can provide us with in-depth impressions of everyday phenomena in companies (Baxter & Jack, 2008) and thus enable us to answer our research questions. A case study strategy is an iterative process which is closely linked to empirical data (Eisenhardt, 1989). This strategy is oftentimes used for exploratory purposes as it can provide data to answer 'how' and 'why' questions (De Massis & Kotlar, 2014) and it is the most common qualitative strategy in family business research (D. Fletcher, De Massis, & Nordqvist, 2016). Qualitative research and in particular case study strategy allow us to tell compelling and note-worthy stories (Dyer & Wilkins, 1991; Reay, 2014) which will make our research 'interesting' as demanded by Salvato and Aldrich (2012).

An advantage of this strategy is that it additionally offers insights into the context of the researched phenomena (Dubois & Gadde, 2002). We believe that this characteristic of case studies is beneficial for our thesis since especially in family firms, the boundaries between the research episodes and subjects and their context are not clear-cut (Yin, 2013). De Massis and Kotlar (2014) highlight that a case study strategy is able to generate not only valuable insights for managers but also knowledge that can advance the research in family businesses.

The case study strategy delivers findings that can not only be compared within one case study but also across others (Dyer & Wilkins, 1991; Eisenhardt, 1989). By analyzing the process of financial decision-making in several case companies, we believe that our insights will also be retrievable in other cases and therefore contribute to generate theory (Dyer & Wilkins, 1991). We apply a multiple case study strategy in our thesis in order to explore differences and similarities within and between our researched cases, to replicate our findings across the single cases and to ultimately find emergent patterns (Yin, 2013).

Stake (1995) argues that it is necessary to clearly define the unit of analysis and points out that while for example organizations and persons represent a suitable unit of analysis, events or processes are difficult to integrate as cases. Yin (2013) states in addition that the research questions should drive the definition of the unit of analysis. Regarding the unit of analysis, it is possible to use either a holistic or an embedded case study. Focusing on the organization as a whole is suitable for answering our research questions, which is why a holistic case study is appropriate. As we are interested in studying how one financing decision evolves in each case company, which persons and places are involved in the process, our strategy can be classified as holistic (Baxter & Jack, 2008). For our research, the ability to investigate the process through several lenses such as family members or externals is beneficial since it enables us to see the decision-making process from different perspectives and to explore the phenomenon across the individual perceptions (Baxter & Jack, 2008). This multi-perspective investigation of organizational phenomena is essential in family business research in order to explore possible family involvement or influence on the business (De Massis & Kotlar, 2014).

Although we recognize that longitudinal case studies can provide us with deep insights of how a phenomenon evolves, we apply a cross-sectional study design due to time constraints. However, as we are interested in the process of decision-making, we still need to include a time dimension in our research. We explore therefore how this process evolved in the past and gain our insights from the retrospective view of our informants. We believe that this approach provides us with the required depth of comprehension and is also in line with our interpretivist philosophy as the informants share their understanding of the process from which we deduce our own insights. Thus, we argue that we are able to answer our research questions by designing a cross-sectional study.

Particularly for a case study strategy, data triangulation can enhance the quality of the study as it combines two or more different sources of data collection in order to generate an even richer picture of the phenomenon under study (Eisenhardt, 1989) and to create insights on aspects that would have otherwise not emerged (Dubois & Gadde, 2002). By combining independent data collection methods, each method has the potential to compensate for possible short-comings of other methods and therefore strengthen the quality and credibility of our thesis (Patton, 1999). Regarding our study, we will combine semi-structured interviews, observations and secondary data, such as published information about our companies (multi-method qualitative study) in order to not only capture the interpretation of the decision-making process by the practitioners themselves but also to add our own observations and interpretations. Based on the design of our study, we are not able to conduct observations on a larger scale which is why we limit them to observing our respondents during the interviews which was a benefit of conducting our interviews face-to-face.

## 6.6 Research Methods

Our case studies are built on data collected through semi-structured interviews, observations during interviews and secondary data. Our research questions are formulated in a way that calls for a qualitative approach, therefore different qualitative methods have been conducted. According to DiCicco-Bloom and Crabtree (2006) and Flick (2014), in-depth interviews enable

the interviewer to delve deeply into social and personal sentiments but also to uncover subjective viewpoints from the interviewee.

One distinctive feature of a semi-structured interview is a guideline for the interviewer which contains a clear set of instructions. According to Hesse-Biber and Leavy (2010) and Lichtmann (2012), those guidelines are based on a set of predefined open-questions, which lead through the interviews but still allow the interviewer to react flexibly to answers, add or change questions or to dig deeper for more details. A semi-structured interview can be characterized rather as a kind of interaction, comparable with a conversation (Hesse-Biber & Leavy, 2010). Nevertheless, guidelines guarantee that the conversation does not lose track and thus lay the foundation for obtaining data within the designed scope. Lastly, through guidelines, comparable and reliable qualitative data can be provided.

In order to add to the richness of empirical data, we further conduct a participant observation. According to Mack et al. (2005) and Bernard (2006), participant observations are useful for getting an important understanding of the context in which the interviewees work and live, but also of their relationships to people and colleagues. Observations provide us with the opportunity to check against participants' subjective reporting of what a person believes and does. By doing so we refer to espoused theory (Argyris, Putnam, & McLain Smith, 1985; Argyris & Schön, 1974). Further, researchers use this data collection method in order to enhance the usage of other methods and to face triangulation purposes (Mack et al., 2005). However, it must be noted that observations are inherently subjective (Taylor, Bogdan, & DeVault, 2016) which is fully in line with our view on reality since we use an interpretivist philosophy. We will try to make this clear so that the readers can understand our sensemaking process of what we have encountered in the case companies.

We support our multiple qualitative methods with additional secondary data. Secondary data is material that has not been directly collected for our study, but served a different primary purpose (Hanson, 2010). We evaluate newspaper articles, nominations for awards, annual statements and their related management reports but also internal investment statements, if applicable, to broaden our understanding of the business model and the conducted decision-making process. However, we do not include publications or websites from the companies themselves in our analysis, since by creating this content for their own purposes; it can easily be biased by the desired image that a company wants to possess.

In our thesis, we develop three different guidelines for the interviews. One guideline addresses family members, the second one non-family managers within the company and the third guideline focuses on external actors, who support the decision-making process. Questions in each guideline are designed to get a deep understanding of the decision-making process but also to absorb moods and sensitive tensions in order to evaluate the described approach. It is foremost important to build trust in the beginning of each interview before asking topic-related and more sensitive questions (Hesse-Biber & Leavy, 2010). Furthermore, we agree in advance on one specific investment decision with the company which was in their recent history of importance by their own judgement. This is necessary in order to make sure that the answers of all respondents within one company are related to the same decision-making process.

The first part of the guidelines for family and non-family members is designed to build trust, to promote a friendly atmosphere and to get personal information from the interviewee. The managers are asked to introduce the company and themselves shortly as well as to describe their own role in the company. Summing up the introduction part, interviewees are asked to describe the general relationship between family and non-family members and what goals they try to achieve from a business and personal point of view. The introduction part for the external actors is mainly designed to get to know each other and to find out how the cooperation arose with the company. Furthermore, the interviewees are asked to describe the relationship to family and non-family members.

The following section is divided into the three guidelines, which describes the different interview strategies for the main parts of the interviews. The specific interview questions can be found in the Appendix.



### (I) Guideline for family members

The main part of the interview is designed to get a deep understanding of how family members influence a finance decision process in their company. We ask open questions, which are related to financial and non-financial goals of the members in order to understand how factors such as socioemotional wealth influence the family but also how strong their role and impact on the decision process itself is. By doing so, the interviewee gives valuable insights to the introduced 'why' and 'how' questions. Next, we ask where the family members hold their meetings and why they prefer a certain place for a specific purpose. Further, we ask about all important meetings, their purpose, where they take place and what they want to achieve. Due to our semi-structured approach, we are able to ask open-ended questions about challenges and problems which might occur, when family members try to enforce their own point of view or pursue other goals than non-family managers. All the questions are related to the specific investment decision, but include also notions about the overall context.

### (II) Guideline for non-family managers

The non-family managers are firstly asked if they can elaborate in detail on the agreed upon investment decision and which important milestones and meetings are necessary to structure the financing part. We ask about each meeting, who is involved, and what they try to achieve, what the purpose of the meeting is, where it takes place and how the meeting proceeds. We try to find out how managers structure the process, which pitfalls might arise and how she or he handles the different actors in multiple arenas.

### (III) Guideline for external actors

We use external actors (such as accompanying consultants or bank managers) to get an additional outside perspective on the entire decision-making process. We are aware that external actors get only a small insight into the structures; however they are an important source for a better understanding of the behaviors of the different actors. We ask how they approach and advise family and non-family members, if they use similar or different methods for them and lastly which factors they consider as most important in order to achieve a satisfactory result for all parties.

During all interviews, we conduct participant observations and take notes, on how the interviewees react to certain questions or how they formulate answers. Moreover, we also include observations about the meeting setting and location. This enables us to interpret the observed emotions, behaviors and expressions and hence to evaluate the given answers.

## 6.6.1 Choice of Companies

As our purpose asks for in-depth insights into decision-making processes in family companies, we investigate family members, non-family members as well as external influencers (such as bank employees or consultants). This in turn requires a precise determination of possible companies to use in the case studies in order to ensure comparability of the data. Therefore, we apply a funnel approach and focus on a specific industry sector, develop three internal characteristics and lastly determine a geographical area to make sure that targeted companies meet our requirements.

- **Industries:** We believe that for our research purpose it is not required that all case companies belong to the same industry. Rather it is important that they have access to the same possibilities of financing. This is ensured through characterizing industries by scope and their means of competition. Hence, we focus on companies which operate in a segment of specialization which is determined by a product or service differentiation. Often companies within this field are leaders regarding innovation and development of new products and services. Therefore, they provide their clients a value-added offer enabling an international sales approach. However, those companies need to invest often substantially in order to keep their competitive advantage. Therefore, companies that set a focus on service/quality and operate globally are our target field as we believe that they are treated generally similarly by external financiers.
- **Size, Structure and Turnover:** Potential companies must have at least 150 employees and an active corporate governance structure (e.g. board of directors, shareholders'

committee or transparent structures). However, in order to add some variance to our case studies, we looked for companies that are of different sizes, namely one rather small family firm, one employing thousands of workers, and lastly one between these sizes. Similar to the sizes, the individual companies achieved also turnover of different scale. This allows us to look for differences in our findings which can be explained by deviating sizes or turnover.

- **Financial Decision:** Further we are interested in substantial financing decisions. However, in our eyes defining monetary amounts that the investment should exceed would come short of capturing what is deemed important by the decision-makers in the company. Therefore, another characteristic of our companies is that they can give us insights about an important financing decision, which can be already completed and executed or still in the implementation stage and which was in their eyes of high importance for the family firm.
- **Family Generation and Involvement:** Next, our case companies are selected based on comparable indicators regarding the generation in charge of the family business and a similar number of family members who are involved as managers or owners.
- **Geographical Location:** Lastly, we focus on the Southern part of Germany, as this area is characterized by a vivid culture of medium-sized family-owned companies. In Germany, many family businesses are characterized as the ‘Mittelstand’ and are of particular importance (Klein, 2000): The German ‘Mittelstand’ is famous for being the backbone of the economy (BMW, 2014) and is therefore also valued by external financiers which we believe is an interesting point for our research.

By ensuring that several characteristics are the same across all three cases while others, namely size and turnover are different, we can take advantage of the similarities and differences in the analysis part of our study.

In order to find the most fitting case companies, we utilized newspaper articles and websites, talked to contacts from our network and to experts within the field. Lastly, all family firms fitting our requirements were gathered on a list which ended up containing 35 family firms. We sent an email with a thorough description of our research purpose and a personal motivation, why we believe the company fits our research and why it is beneficial for them to support our research. Out of the 35 contacted companies, twelve replied, two of them only to inform us that they are not able to participate in our study. We informed the remaining ten case companies more in detail about our study and then selected those three that were most fitting to our criteria. Two other companies were used to add supporting or contradicting voices to our case studies. Three companies were selected as our case companies and we set up interviews with them aiming to interview all persons that are generally involved in financing decisions, since it is important for us to investigate the financing process from different perspectives. An overview of our case companies can be found in table 1.

Case Company	Industry	Generation in charge	N° of family members involved	N° of employees	Turnover 2015
Company A	Hydraulic machine production	2 <sup>nd</sup>	3	150	50 M€
Company B	Automotive production	2 <sup>nd</sup>	3	750	100 M€
Company C	Constructive production	2 <sup>nd</sup>	5	7,700	1,300 M€

*Table 1 – Overview of Case Companies*

## 6.6.2 Data Collection

Before the semi-structured interviews were conducted, guidelines with a short description of the research purpose as well as some example questions were sent to the interviewees. Furthermore, we asked the interviewees to think about how the decision-making process was structured in their company and which different arenas and actors were involved in general. As explained above, we asked all participants in each company to agree on a specific decision-making process in advance which we would like to investigate. However, we decided not to send a whole interview guide, since our purpose investigates a sensitive and sometimes critical organizational process. This pre-knowledge could bias the interview partners in their responses or lead to internal agreements. In this way it is possible to gain unprejudiced and meaningful insights.

The interviews were conducted in the time period of April 5 to 27, 2016 in Germany. To execute the face-to-face interviews we visited all participants in their offices. All interviews were conducted in German as this is the mother tongue of all interview partners as well as of us. This facilitates the ability to express oneself tremendously. We believe that by doing so, our respondents were able to answer more directly and without thinking too much about how to phrase an argument. Before conducting the interview we asked the interviewee if it was fine to record the interview in order to translate, transcribe and analyze the responses. In case the interviewee refused, we took notes and wrote down a reflection afterwards to evaluate the conversation.

We conducted all except one interview in person. Each interview lasted between 52 and 115 minutes (see table 2 and 3) and was subsequently transcribed. For us it was important to conduct face-to-face interviews in the companies. It is not only easier to build a trustful atmosphere during the interviews but also makes it possible to interpret the mimic and gestures of the respondents. For our interpretivist approach this adds enormous insights as we were able to interpret tensions or reactions from our interviewees. Additionally, by meeting the respondents in their offices, they could feel more at ease and relaxed during the interview. Furthermore, we got additional insights into the general atmosphere in the company, how the employees talk to each other and how the offices are designed. All those impressions support our interpretivist approach.

Besides conducting interviews, we used and analyzed secondary data which consisted of newspaper articles, annual accounts and investment statements to further evaluate the outcome of the interviews and the data. We received additional archival material as well as some future investment plans for the following years from all three case companies. However, as the material is very case specific we only used it to support our findings drawn mainly from our semi-structured interviews. Also due to ethical reasons connected with the sensitivity of the material shared with us, we decided not to consider any of it other than our own sense-making of it. Lastly, we conducted two interviews with respondents who are not connected to our case companies. These two contacts were taken from the companies that replied to our search for family firms but are not selected as the three main case studies. Their opinions and examples support us in our findings as they enable us to strengthen or question findings of our case companies.

Company	Nickname	Position	Family Member	Interview		
				Type	Date	Length
A	Anton	CEO & Founder	Yes	Personal	April, 5 <sup>th</sup>	59 min
	Alexander	Project Manager	Yes	Personal	April, 5 <sup>th</sup>	62 min
	Arne	CFO	No	Personal	April, 5 <sup>th</sup>	68 min
	Armin	Banker	No	Personal	April, 26 <sup>th</sup>	100 min
B	Benjamin	CEO	Yes	Personal	April, 12 <sup>th</sup>	115 min
	Bertil	Sales Manager	Yes	Personal	April, 12 <sup>th</sup>	61 min
	Bastian	CFO	No	Personal	April, 25 <sup>th</sup>	63 min
	Bernd	Consultant	No	Personal	April, 25 <sup>th</sup>	75 min
	Bruno	Banker	No	Personal	April, 25 <sup>th</sup>	81 min
C	Christoph	Business Executive	Yes	Personal	April, 27 <sup>th</sup>	63 min
	Clemens	Business Executive	No	Personal	April, 27 <sup>th</sup>	58 min
	Carl	Head of Treasury	No	Personal	April, 27 <sup>th</sup>	72 min
	Casper	Banker	No	Personal	April, 26 <sup>th</sup>	60 min

Table 2 – Overview of Respondents from Case Companies

Nickname	Position	Family Member	Interview		
			Type	Date	Length
Daniel	CFO of Family Firm	No	Phone	April, 19 <sup>th</sup>	52 min
Erik	Lawyer & Consultant for Family Firms	No	Personal	April, 13 <sup>th</sup>	64 min

Table 3 – Overview of Additional Respondents

## 6.7 Data Analysis

In explaining our data analysis we refer to a field of the Human Science, so called Hermeneutics. The core theme of Hermeneutics is that: “the meaning of a part can only be understood if it is related to the whole [...] [and] the whole consists of parts, hence it can only be understood on the base of these” (Alvesson & Sköldböck, 2009, p. 92). This leads to the hermeneutic cycle, which can

be used as a guide during our analytical process. In order to take advantage of this, the cycle is transformed into a spiral, which means that parts of the whole are interpreted, which lead then to first insights. Next, those insights are analyzed in the relation to the 'whole'. This process is repeated until a deep understanding between parts and whole is shaped.

Having this in mind, we began our analysis of the data by building individual case summaries based on the interviews, the participant observations and secondary data. In order to do so we started by combining and comparing the transcripts of the interviews with our notes, which we took during the interviews. These notes included the emphasis on tone of our interviewees, general observations as well as own initial interpretations. We further discussed our observations regarding perceived honesty of the given answers, appearance and behavior of the interviewee as well as the overall impression of the family firm directly after each interview. We further added secondary data, which we already collected in preparation for the interviews, and the materials provided by the companies during the interviews. Due to the combination of different data sources, we can enhance the credibility of our study. By synthesizing the data and writing down the financial decision-making process of our case companies, we already simplified and focused on certain aspects of our data. Starting from our theoretical perspectives and with the research purpose in mind, we concluded the in-case analysis. This is in line with De Massis and Kotlar (2014) and Barbour (2013), who state that data has to be prepared, but also can be prescreened without losing quality. Throughout the whole process, we discussed our data and looked for systems of variation that might appear. What we believe makes our study credible and confirmable is our extensive use of the advantages of working as a team. Each of us takes own notes during the interviews which are then compared. We also discuss in detail all findings and the connection to our theoretical perspective. After one author summarizes the cases, the second acts as critical reviewer to ensure that our summaries match the acquired data. We also present the cases in detail in this thesis. We believe that our data is rich and full of insightful and 'juicy' findings, that we can only do it justice in presenting our results in the style of narratives. By doing so, we also enable other researchers to thoroughly retrace how we arrive from our data at our analysis and final conclusion.

After the critical review, we analyzed our transcripts individually, identifying relevant concepts and coded the meanings, key concepts and terms. For this step, we used predetermined codes from theory and in-vivo codes (Corbin & Strauss, 2015), in which the name of the labels are related to the content or meaning of the informants. If this type of coding was not possible, we used descriptive phrases. Thereby, we did not exclude seemingly less important concepts; rather we allowed them to develop until we reached a clear picture of how a specific concept interacts among the others. We did this until the remaining data failed to reveal new patterns. However, we only labelled data as relevant concepts if we found this information across multiple interviews within a case. This was to make sure that our analysis was not influenced by the strong opinion of one interviewee. Then, we compared our individual codes and discussed them in detail. Again, we believe that this time-consuming process is worth the effort as it can lead to better insights and also enhances the trustworthiness of our study.

Afterwards, we categorized the coded data by searching for patterns and relationships between and among these codes. In this step we started our cross-case analysis in order to identify common patterns. This is in line with Corbin and Strauss (2015), who label this analytical step as axial coding. Those patterns and relationships were clustered into high-order categories.

According to De Massis and Kotlar (2014), relationships and patterns can occur on many different hierarchical levels in an organization and can have an impact on individuals or teams. This can affect the outcome of meetings, discussions, processes or even the whole organization. Therefore, we analyzed the data from different angles. Our starting point was to analyze which actor was involved in a decision-making process and in which arenas this process occurred. Next, we analyzed in great detail how decisions were made in all our case companies. Thereby, we put a focus on the actors and how they influenced the process. Based on those different influence factors we built micro-practices as a first categorization. Next, we used those practices to analyze our findings across cases and identified meso-practices that are related to the micro-practices in use. Throughout the whole analytical process, we followed the systematic combining approach of Dubois & Gadde (2002). Although they set their focus on a single case study design, we believe that their approach fits very well to our abductive research design and the aforementioned

hermeneutic cycle. During our analysis we were “constantly going ‘back and forth’ from one type of research activity to another and between empirical observations and theory” (Dubois & Gadde, 2002, p. 555). This enhanced our understanding of data and theory and in our eyes leads to a good connection between our empirical findings and the theoretical lenses that we apply. Conducting this approach includes a matching between theory and reality, a going back and forth between data and theory, which allows us to strengthen the impact of our conclusion and findings (Yin, 2013).

To even further strengthen the significance of our study, we refer to two additional expert interviews which we conducted separately from our main case studies. As we already analyzed our three case companies and received insightful topics for analysis as well as interesting main directions for our discussion, we reviewed the additional expert interviews for arguments that would either strengthen some of our main points of analysis or contradict them. We used the insights of the expert interviews sporadically through our analysis and discussion part as we are convinced that these nuances to the voices of our main respondents enrich our study.

## 6.8 Research Ethics

Ethical issues can occur throughout all steps of conducting research and should thus be taken into account from the outset of our thesis (Preissle, 2008). Furthermore, ethics in management research are rather specific and need to be considered when producing valuable research (Bell & Bryman, 2007). We take the ethical considerations of our research very seriously and aim to put no harm on our interview participants and companies (Herrera, 2010). Therefore, already when approaching possible case companies we gave ample insights into our research topic and the outline of our study. By doing so, the companies had a good understanding of what we expected from them in terms of access and could make an informed decision of whether to participate. Once access was granted, we shared an interview outline with the participants beforehand in order to allow a transparent and voluntary process with the interviewees. All interviewees hence gave informed consent (Hansson, 2006) to participate in our study. Furthermore, we ensured anonymity of the case companies and the specific interview partners by assigning them letters and nicknames instead of using their real names. We also anonymized the received data. We believe that this is necessary to get an honest and insightful report from the interviewees, as they can trust us that their statements will be neither traceable nor passed on to third parties. As in family firms highly sensitive topics can occur, research in this field needs to strictly adhere to ethical standards (Payne & Ireland, 2015). Whenever requested we also signed statements of non-disclosure to guarantee our ethical behavior to the case companies.

## 6.9 Trustworthiness

Our goal is to conduct a high quality and rigorous qualitative research. However, by aiming to ensure validity and generalizability, we would fall short of giving our data sufficient space to reveal interesting and new insights (Daft, 1983). Therefore, we rather follow Guba’s understanding of what constitutes a trustworthy study and ensure the concepts of credibility (I), transferability (II), dependability (III) and confirmability (IV) (Guba, 1981). Krefting (1991) highlights that several strategies throughout the research process can be applied to ensure these four concepts.

*Credibility (I)* is concerned with the truthfulness of our findings (McGinn, 2010). Since we see reality as socially constructed, we want to point out that we assess credibility from our perspective as researchers and from the view of our research participants rather than as an inherent quality construct. A good way to ensure credibility is to spend prolonged time in the field (Krefting, 1991), however due to the time constraints of our study this measure was not available for us. Rather, we apply a high level of triangulation by using a multitude of perspectives, both from our respondents and from ourselves as researchers. In fact, we use the advantage of working as a team on our research to further increase our credibility. For instance we independently coded the interviews and discussed our findings as a next step. This allowed us to examine our data more thoroughly and ensure quality. Additionally, we were open for deviating results during our empirical process and aimed to explain all inconsistencies with interpretations from our data (Guba, 1981) which allowed us also to confirm the truthfulness of our findings.

Nevertheless, findings of a high-quality study should also be transferable to other contexts. Our case companies are unique and situational; still we can achieve *transferability (II)* through

ensuring that they are representative (Krefting, 1991). Therefore, we provide rich information about the characteristics of our case companies and specify which criteria were applied in their selection. Readers of our study are able to transfer our presented findings to their own context based on our thick descriptions (Pratt, 2009).

*Dependability (III)* means that the findings of our study are consistent and hence others can follow the single steps of our research and potentially repeat it (Jensen, 2008b). Particularly for demonstrating the credibility and dependability of qualitative studies we regard it as important to demonstrate clearly and in detail what we do and how we arrive at our conclusions. We design a transparent process by disclosing our analysis and coding process in order to make it clear how we reached our interpretations.

We aim to achieve *confirmability (IV)* of our study by showing how our findings are clearly rooted in our data (Jensen, 2008a). Our results are driven by the purpose of our study rather than our own biases. In addition to triangulation of data, we rely on the fact that we as a team rather than as one individual researcher conduct this study and thus code and analyze our findings through discussion. By doing so, we increase the data and interpretational confirmability of our study.

## 7. Empirical Findings

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*After having collected empirical data, we see it as important to demonstrate what we found so that it is clear how we arrive at the following analysis. Therefore, the empirical findings are presented in this section. We use a narrative style to present our case studies because it allows us to depict the richness of insights and understanding that we gained.*

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As our research period is rather limited we cannot do justice to the praxis that occur in our case companies. We are unable to fully grasp the exact work and activities that take place in our decision-making process based on the retrospective narration of our respondents. Therefore, we have to distance ourselves from claiming that we can paint a comprehensive picture of activities when we are not there to capture them as they are happening. As Whittington (2006, p. 620) underlines that “practice-oriented studies do not need to combine all three elements of praxis, practices and practitioners at the same time”, which means that researchers can also decide to focus on parts of SAP while still doing justice to practice-oriented research. Through engaging several perspectives of all actors involved in the process, we are convinced that we can identify practices and practitioners. In order to study and analyze praxis, long-term studies and shadowing would be required.

### 7.1 Company A

The 5th of April 2016 was one of the first warm and sunny spring days in the Southern part of Germany, as we arrived at the company’s customer parking space. We entered the office building and were greeted very friendly from an assistant of the owner, while she was putting fruits and sweets into two large bowls. She said: “I’m pleased to welcome you to company A, hopefully you had a pleasant journey”, and guided us to the main meeting room on the first floor. While we were waiting for the owner of the company she explained to us that the owner puts great importance on the well-being of his employees which can sometimes be improved with fruits or even sweets. A short time later, the owner entered the room and told the assistant: “Coffee for us and I need the investment sheets for our guests”. Our first impression of the founder from our prior correspondence as someone who wishes to realize his values and cares for both employees and family was confirmed, but we also perceived a clear hierarchical structure.

#### **Distribution of Roles, Purpose and Goal of the Company**

Company A is a typical German “Mittelstand” firm with highly innovative, technologically advanced products within the field of hydraulic elements and special machineries. The constantly growing 52 year-old family business has currently 150 employees and is an important supplier for many world-known companies. Anton, the CEO and founder, still holds 100 percent of the shares of his company. His philosophy is crystal-clear to everyone in the company: sustainability and continuity at the first place followed by the pursuit of profit. His definition of sustainability can be summarized very well by the main philosophy of the company: *“Sustainability is not only a buzz word, rather it has many directions in my company meaning that I for example do not withdraw earnings in order to build a solid capital stock or lay off people during a recession.”*

Anton has started to gradually withdraw from the everyday running of the firm ever since his son Alexander, who recently graduated from a Business School, has started being involved in the company several years ago. Even though Alexander is responsible for the expansion of a growing special machine construction segment he still needs to earn his spurs in the company. In the middle-term, he will be the successor of the company. Until then, Anton is still the main person responsible for the company’s overall strategy and its further development. Some years ago Anton established an advisory board, which supports the organization in important strategical decisions. Further, Anton will move over to this board in the next few years to guide strategy decisions of his company from this new position. At present, the board consists of a lawyer, a banker and a tax consultant.



Arne, a non-family CFO of the company is a long-term close confidante of the family and is responsible for financial matters but also for the day-to-day operational business. He was the company's personal bank advisor for the last 20 years and joined the company half a year ago. Besides Arne's daily operations, he is furthermore an important link in the family's succession process. Arne evaluates the goals of the company slightly differently as he states: *"I am largely aligned with the main goal of sustainability. However, I cannot proclaim 'sustainability is a nice thing, we should do this', but after five years the company will go bankrupt."* Therefore, Arne tries to find the right balance between sustainability and profit maximization when giving suggestions to the founder. Nevertheless, Arne sees himself working foremost for the benefit of the company and the owner of the family firm. When making decisions, he tries to put himself into Anton's mind so that he can make sure to take the right decision. Arne explains: *"You have to be damned careful to recognize what the owner of the company wants to achieve and what the main characteristics of the company are. You have to be aligned with this direction; otherwise you cannot be successful, especially not as a non-family manager."*

Asking Alexander about his relationship to Arne, he highlights that *"Arne is an extremely loyal person, who cultivates a very strong friendship with the whole family."* In this particular role, his open-minded and friendly personality is very helpful as it allows Arne to also approach rather sensitive topics with the owner family.

### **Investment purpose**

The company is located in the middle of an industrial park in a medium-sized town. Due to the constant growth of company A, the firm has reached its maximum in geographical spread as the company's grounds are almost completely developed. Therefore, the family firm needs more space to grow in order to remain competitive in the future and meet the growing demand of its customers. The challenge is to find and finance possibilities of growth. This challenge represents the starting point of the decision-making process.

### **Process**

It has been a long-term tradition of the family that Anton, his wife, who is also working in the family business as a non-leading employee, and Alexander meet every morning for a second-breakfast in Anton's office. Alexander describes those meetings as a 'family ritual', which has a very informal character, with the family members sitting together and drinking coffee. During the meeting, they discuss a wide range of topics, ranging from birthday dates of employees to important strategic decisions. All family members emphasize that these breakfasts do not have an important strategic impact. However, it seems that the fundamental decision of each strategic move is already set in this family circle. It is worth mentioning that Anton is the key influencer of this process as Alexander states: *"My father has his own definite ideas. He is interested in your opinion, but you should better share his opinion, otherwise the breakfast turns to a meeting fraught of tensions."* Anton is still setting the main direction of the company. Contrariwise, Anton explains his goals of the second-breakfast in a different manner: *"For me it is most important to discuss topics in the family. I want to align my family and ask them for their opinion, because we as a family cannot have different opinions about a topic."*

In the fall of 2015, it was Alexander who told his parents that a neighboring property with a production facility would be for sale since the company relocated its operations. During the second-breakfast the family talked about not only benefits but also challenges of a possible purchase and everyone stated their first impressions. From the beginning, Anton was enthusiastic about the acquisition, and made it clear to his family that this would be a unique opportunity and that they should buy this area. He argues that his gut feeling told him that this would be a good deal. Thus, Alexander and his mother agreed. Until this point the possible purchase was only known within the family boundaries.

Afterwards, the possibility of purchasing the production hall and the surrounding grounds were presented in the top management team meeting for the first time. This meeting takes place at least once a week in a conference room. This almost plain room has a huge wooden table with twelve leather chairs around it, reflecting the conservative and modest values of the company. Besides Anton and Alexander, Arne and Andreas, another non-family manager, are participants of the official meeting as they are part of the top management team. It is worth mentioning that

even though Andreas is a trusted and loyal manager, he was not an active part in the decision-making process. Anton presented the general idea of buying the area and the whole management agreed on his idea, knowing that a financing strategy would be necessary for this. Hence, Anton ordered Arne to develop a finance proposal under the condition that he had to present important milestones during the top management team meetings. As usual, the members addressed some points but in the end they let the proposal of the owner through on the nod. Arne states: *“The secret lies in the outcome of the meeting, that everyone is aligned to 100%. It would be the worst case for us and all employees, if we – as leaders – wouldn’t reach a common agreement.”*

Arne was the person responsible for negotiating with the municipality, craftsmen and suppliers to get an indication of the total investment volume. As demanded, he reported regularly about the progress and asked for opinions of the meeting members. However, only at the first glance the top management team meeting is the place where decisions are made and in-depth discussions are held. When talking to various actors in the company, we see that on the contrary, real discussions and formations of opinions were rather conducted in informal dyadic conversations. For example Arne reveals that the members of the top management team do not attend those formal meetings without knowing the topics beforehand. They already discuss critical points bilaterally before the meeting and know the opinions and feelings of the other managers. Arne explains: *“It is more pro forma, meaning having a protocol and a formal framework in place, we already made our decision before the meetings.”* Anton experiences those meetings more as an open discussion round where everyone can state their opinion, which is followed by a consensus. He believes that after the meeting everyone is aligned and holds the same opinion. On the contrary, all members follow Anton’s opinion and only express cautious concerns, since as Alexander puts it: *“It is really hard to persuade my father or even harder to change his position if he already has an opinion. It is only possible, if you can present really good and valuable data. Otherwise, his opinion is God’s law. That is why I don’t speak openly in this round and restrain my opinion.”*

Hence, real discussions and friction only takes place in more informal circumstances, when Anton is specifically not involved. Arne uses such informal meetings to firstly debate vigorously and shape opinions, secondly to find common ground within the management team and lastly, if necessary, to persuade in a united effort. Arne reflects: *“The best thing you can do is having early communication with all participants, meeting them for coffee or a quick chat on the corridor, asking them for their opinions or concerns. It is in the end the knowledge and sharing of convictions that makes a decision really strong and good.”* Arne is aware that it is beneficial to have different opinions and points of view as these contribute to a better decision. However, as real discussions do not occur when the owner is present, Arne has to be skillful to guide and influence the other members of the top management team in situations where the owner is not present such as when meeting colleagues at the coffee machine.

In conclusion, the decision-making process in the business side of the family firm is a back and forth process between informal discussion in dyadic conversations and formal top management team meetings. Thus, the real decision-making process is built on countless small and short meetings in informal places and in different settings. Hence, even the small coffee kitchen on the first floor can be seen as an important meeting place which highlights the importance of informal meetings for the financial decision-making process.

In this context, one outstanding example is the relationship between Arne and the future successor Alexander. They meet on a daily basis in Arne’s office and discuss topics such as invoices, the status of current projects or even processes in the daily routine. Alexander confirms: *“We have a really strong relationship of trust. Arne can be seen as my mentor and supports me in my work; he explains and teaches me a lot of things, since he has such a great wealth of experience. He is doing this in a fatherly nature and I see him almost as a family figure.”*

After several top management team meetings and consultation rounds, Arne presented the final required volume of invest, which was approved. As a next step the financial terms had to be debated. Arne was responsible for the negotiations with one predetermined house bank, since the internal family circle already decided beforehand which bank will be asked for financing the purchase of the building. Conversely, not only economic-driven criteria had been crucial, also long-term oriented factors influenced the choice of the bank. Alexander states: *“We decided this*

*during the breakfast, or more specifically my father decided, that only bank A can make an offer since we as a company cannot always demand from bank A, we also have to give the trust back.”* The relationship to the banks is especially important for Anton. The company maintains longstanding personal partnerships with several local banks, which are built on trust, openness and a voluntary quarterly reporting. For the owner it is important to give trust and continuity back. Furthermore, Anton wants to avoid tensions between his finance partners, which is why the company asks normally only one bank for an offer, even though they might get a better offer with lower interest rates from another bank. Related to the overall finance strategy, Anton only relies on offers of his local banks, as he states: *“If my house banks had not financed the additional purchase, I would have built it by my own over two to three years stepwise. I would never take other finance partners into consideration, since we want to strengthen our existing partnerships.”*

It is not only company A that cultivates close strategic partnerships with the banks but also the banks pursue a strategic approach to foster such long-term cooperation. This strategic approach is based on having a main contact person in each bank, with whom they can establish emotional ties over the time, and who fully understands the business model and the goals of the company in order to consult the company in a most efficient way. Besides that, banks strengthen their relationships through company visits, personalized birthday cards, or invitations for special events. An involved bank employee from bank A, Armin, states: *“Our bank wants to return something to our customers. Through relevant and interesting seminars, events or business breakfasts we want to create a platform, where owners of family companies can meet, discuss and our bank can reinforce our good and trustful image”.* The owner of company A feels proud and honored when he or his whole family is invited from the executive board of his house banks to annual receptions or smaller, more exclusive events. On the one hand, it is for Anton a confirmation of a trustfully relationship, but on the other hand he believes that only important clients of the bank get those invitations.

In a next step, the bank sent an offer, which was discussed and slightly negotiated by Arne. After both sides agreed on the terms, Arne presented his preliminary loan agreement in the top management team meeting, where it was met with approval. After having received the approval of the family and the top management team, only the approval of the advisory board, as a last step, had to be obtained. The advisory board is a final instance for important decisions, as the three members critically question and ultimately approve the concepts. However, Alexander questioned the power of the board, as he states: *“My father established initially this ‘project’, to still have influence on strategic decisions after he dropped out completely from the operational business. But sometimes I ask myself, if this board plays an important role at all, but at least they ask critical and important questions”.* Arne evaluates the role of the board from a different, more personal, perspective: *“The regular meetings with the advisory board are very important to me. You reflect and ask yourself beforehand ‘is my concept self-explanatory, watertight and been looked upon from all perspectives?’”* Arne is aware of that the power of the board is very limited, but knowing that experts question your concept leads to thought-out and lastly better concepts. Arne presented the whole concept in the big conference room to the advisory board and after discussing some questions of the board, the members were convinced and gave their expected approval. Here we see that the benefit of the board lies rather in the better preparation of the decision-makers than in actually discussing openly during the board meeting. Board members can point out their concerns but eventually they decide according to Anton’s wishes. As the family, the management and the board agreed on the purchasing intentions, Arne organized the corresponding documents and lastly the owner of the company signed the contracts.

### **Conclusion**

Overall, the decision-making process was evaluated highly positive from each participant. Arne stated that a successful company can never make a decision without having aligned employees but in the end the owner has always the final say. Alexander classified himself as a more passive but important ‘assessor’ during the process. Anton summarized that making decisions as owner comes along with burdens, since he is always responsible at the end of the day.

### 7.1.1 Expert Interview 1: Confirming the Importance of Relationships

In case company A, it is obvious how important relationships to external players such as banks are. Especially Arne tried to actively build a strong and trustful relationship with the local banks as he believes that good relationships with banks pay off. It seems that such relationships encourage a closer exchange of opinions and lead to a more open discussion between the company and external parties. This point of view is also shared by the banker Armin. He believes that external parties have to try to create a strong basis of trust with family firms so that they can engage in more frequent conversations and also have access to better influence decision-makers. We want to strengthen this finding by introducing an additional point of view of someone who also has to create a trustful relationship with family firms. We interviewed the lawyer Erik who is specialized on advising family firms in Germany and has accompanied several financing decision-making processes. He is partner in one of the most renowned law firm in Germany, which exclusively consults family firms.

Erik explained to us that the personal component is very important for him when he tries to develop a trustful relationship with a family firm. He always strives to meet the main decision-makers in person when he starts working on a new mandate. *“It always turned out useful when I had gotten to know the family and the directors personally in the beginning because then I can better estimate what their underlying goals are and how I can better appeal to them”*, he explains. Especially when Erik tries to talk about sensitive areas such as a long-due succession plan, it is beneficial when he can feel when the right moment has come to start such a conversation. *“You also need a sense of intuition when and how to approach such topics”*, Erik adds. The advisor believes that it is essential to have a high level of empathy and openness to be successful in consulting family firms. However, Erik stresses that you also need to have the opportunity to demonstrate that you are empathetic and trustworthy. Therefore, in his early years older colleagues often introduced him to decision-makers in family firms. An additional way to develop relationships with family firms is to keep one advisor as the main contact person to the family firm. Erik tries to stay in touch with family firms during the whole advising process as well as afterwards. *“Family firms value stability and I can provide them that by being always there for them. They can always call me, even at odd hours”*, as Erik describes his approach. Another important aspect in creating relationships with family firms is to invite them to events Erik argues. The consultancy organizes regularly big events at hotels where members of family firms can mingle and network. Erik stresses: *“But these events are not for acquisition of new clients. It is rather an opportunity to network for our guests. Sometimes you can be referred afterwards but this is not the main goal of such evenings. It could even take ten years until we get a mandate out of such events.”* It is important for Erik and his consultancy that they represent themselves as partners to the family firms rather than as wanting to make money with them. He believes that trustful relationships will be most beneficial in the long-term.

## 7.2 Company B

Company B is located in a small city in the Alpine foothills, surrounded by green cow pastures with tiny crystal-clear creeks. As we arrived at the parking lot of the company we could already see the car of the CEO directly next to the entrance, since his parking spot had a big sign in front, stating: ‘Geschäftsführer’ which means CEO in Germany. Only after the third ring bell, an assistant came to open the door for us. We felt slightly unwelcomed in the beginning. Next, we had to sign an agreement that we would not steal or damage anything. Hence, we could already feel that in this company tensions might be the daily routine.

### **Distribution of Roles, Purpose and Goal of the Company**

Company B is a family business located in the Southern part of Germany where they have been producing components for the automotive industry since 1973. Several large automotive companies rely heavily on their production expertise. The company is able to constantly provide state-of-the-art elements to its customers due to the inventive talent of the firm. Today the company employs 750 employees at three production sites in Germany and at several

international locations. Three family members are working for the company; Björn founded the company and is still very concerned about the future of his 'baby'. In his position as R&D manager, he is also the main driver behind the technical progress of the firm. Mainly due to tax considerations, he signed over large parts of his ownership to his sons Benjamin and Bertil and holds today 10%. The oldest son Benjamin began his career in the family firm after finishing his university studies. Since 2002, he holds 55% of the shares and is the CEO of the company. The younger son Bertil joined the family firm in 2009 and holds 35% of the shares. He is responsible for marketing and sales of the company as well as for an innovative business field. Due to the very diverse characters and attitudes of the two brothers, they experience troubles working together. While the younger brother would like to follow a rather risk-averse strategy, the older brother is more interested in pursuing growth opportunities whenever possible. Bertil summarizes: *"We are simply two very different characters and therefore we see things contrarily and we want different things."* The two brothers form with the CFO of the company the board of directors. The non-family manager Bastian holds the position of CFO in company B and has been working for 12 years in this position.

### **Investment Purpose**

Every year, the company reviews its annual achievements and predicts how the next five years will develop based on already signed contracts with customers. Benjamin, the CEO, asks each department for their forecast of what they will need regarding personnel and machines in order to fulfil the predicted five-year plan. Although the controlling team under the lead of the CFO, Bastian, is responsible for compiling the five-year plan, without the explicit request from the CEO, the departments would not provide the data by themselves. Bertil confirms this: *"It is up to the CEO to come to the R&D department and say 'well guys, how much do we need until 2020?', otherwise not much would happen."* When conducting the five-year plan in 2015 the company realized that they were about to experience enormous growth over the following years, which they were not able to sustain with their current production facilities. Therefore, the CEO initiated a financing project in order to acquire sufficient liquidity. Benjamin called in an official board of director meeting where he announced the increased need for financing to Bertil and Bastian by showing them the five-year plan. As we analyze the proceedings, Benjamin's decision to fuel the enormous growth with new money was not questioned. It is Benjamin's goal to grow the business at all costs, as he states *"below a turnover of €100,000,000, a business is not a real business and I will show to everybody that I can lead a real business"*. His brother Bertil is rather risk-averse and states: *"A family business is not something that you can play around with. It is a legacy, something to pass on to further generation. Therefore, I want to preserve it as much as I can."* The brothers' deviating attitudes toward growth and risk offer a wide field for conflicts but as CEO and majority shareholder, Benjamin sets the direction of the company: *"I practically own the business. Therefore, I commit more but I also get to pick the direction of the company."* It seems however that Benjamin rather enjoys having the power over the company's future.

### **Process**

Benjamin decided that Bastian would be the project leader and Bertil would accompany the project as a representative of the family. Bertil had the first task to calculate roughly the amount that would be needed to keep liquidity over the next five years. These results were presented in the next board of director meeting which regularly takes place twice a month. All three directors met for 90 minutes in the office of the CEO and Bertil prepared an Excel file where he explained each line to his brother and Bastian. We see it also as a sign of power that Benjamin only wants to meet in his own office. He invites all other participants and decides when the meeting starts and ends. Further, our observations of the space allocation of the CEO's office compared to the offices of the two other directors strengthen our impression that Benjamin wants everybody to understand that he is the commander of the business. In this meeting, Bertil informed that their company would need a high double figure for financing, an amount that the company had never dealt with before. Even though the brothers recognized that external financing can be restrictive, it was not possible for them to provide the required liquidity for growth mainly from internal funds. Therefore, they preferred to give up parts of their family control for not letting go of the growth opportunity. This is also confirmed by Bastian: *"Success has its price, and in our case the price was the dependence on external financing."*

When Bertil presented his Excel sheet with his forecasted need for liquidity over the following years, Benjamin questioned many assumptions and calculations that Bertil had compiled, as he

wanted to truly understand how his brother had arrived at the result. However, in Bertil's eyes his older brother also challenged him as Benjamin seemed to not really trust him and expected that Bertil was able to justify each step of the calculation. This is also in line with the general discrepancies between the two brothers as we experienced them during the interviews. Benjamin sees Bertil as inferior in his efforts for the company and is therefore also frustrated with the work commitment of his brother. Benjamin confesses: *"Look at me, I am sitting in the office until late at night, while my brother leaves work early so that he can go paragliding in the mountains."* We believe that the difference in work attitude is also fueled by the dominance of the older brother, which is why it seems that Bertil decreased his effort as he knows that he cannot push through with his ideas against the will of the brother. As Bertil puts it: *"With my brother you have to know when to pick a fight. But honestly, usually it is not worth it as he never lets me win anyway. So it is just faster if I do what he wants right away."*

In the same board of director meeting, Bertil and Bastian revealed that they were overstrained with finding a financing possibility for such a high amount. Bertil mentions: *"You start googling financial tools and how you can finance a double-digit number and very soon you realize that it's all Greek to you. So you better think of someone who can help you."* It seems that the two directors were also not very interested in gaining understanding in this new topic of financing as they did not see benefits in doing so. Bastian points out: *"I have so much to do in my position. I do not have the time or energy to learn about a completely new chapter in finance, especially if I will never use this knowledge again."* They also wanted to avoid conflict with the CEO. Benjamin revealed that he was not surprised by the lack of enthusiasm for conducting the financing project internally and assigned them the task to research suitable consultancy firms that would help company B to execute the financing project.

In the next directors' meeting at the CEO's office, Bastian presented several consultancy firms which he deemed a good fit for the task. In contrary to company A, in company B it is not common to discuss any topics in passing or over a cup of coffee. *"If a conversation is needed, I prefer that my employees come at a prearranged time to my office. Otherwise, I could set up my office directly in the corridor between coffee machine and printer"*, argues Benjamin. But also other employees do not meet outside of formal meetings. As Bastian highlights: *"I usually spend my day sitting in my office, and if I need a coffee, I will get a cup and return to my desk. I have never understood why some people like to linger around the coffee machine. I would have the impression that these people have too much free time."* Therefore, it was only at this directors' meeting that the CEO learned for the first time about the proposed consultancy firms. He confides to us that he thought at first: *"Are they kidding me?!"* In his eyes, the proposed consultancies were too expensive, too nontransparent and particularly did not have sufficient experience in these particular financing issues. He was very disappointed by his top management team and once again felt that all work had to be closely controlled by him. Benjamin adds: *"Essentially, I was the representative of the family in this project. I had to do everything myself. I wonder why I even assigned my brother to this position."* On the other hand, Bertil and Bastian were offended as their work and effort were not taken seriously and they felt that no matter what they did it was always wrong. Bastian confirms this in the interviews: *"Benjamin follows an implicit strategy; it only exists in his mind. If you want to know something about the strategy of the company, you better arrange a meeting with him so he can tell you. Otherwise there is no way to do the right thing."* Bastian further mentions that *"at some point you have to stop moving into one direction when you realize that you will never be successful against an opinion which is too powerful, otherwise you work yourself into the ground."* Eventually Benjamin handed the two other directors a brochure of a consultancy firm which he had received accidentally by mail and asked them to contact these consultants.

To kick-off the project with the consultancy firm, the head consultant Bernd came to company B to present himself and his ideas about how the financing project could evolve. Bernd was invited to come to the CEO office and to meet the three managers. When asked about why he was eventually chosen by Benjamin and the other directors, Bernd highlighted that he tried to create a relationship with the top management team as quickly as possible. According to him, it is important to be empathetic to the special dynamics of family firms and to earn the trust of the managers and the family members. He has worked for all his life with family firms so he believes that he can better understand how they behave and what they require. Bernd mentions that *"in family firms, I would say that you simply work more with emotions because of the family*

*relationships. And as an advisor, you should understand this and move beyond sheer number crunching.*” Also Benjamin confirmed that he chose the consultant because he seemed down-to-earth and had a lot of essential business experience.

After the consultancy firm was hired, the consultant Bernd thoroughly calculated with the help of colleagues the amount of money that was necessary to finance company B throughout the next five years. In order to do so, Bernd arranged meetings with all department heads in their offices where he investigated in details how they planned the next five years and what their requirements were. Throughout the process, Bernd met once a week with the project leader Bastian in the CFO’s office to tell him about the progress and also to cross-check if the results were feasible. Bernd collected all information and comprised them into a forecast by using several analytical tools. As soon as he reached an exact number, he presented the findings to the board of directors. Besides the official meetings with the board of directors, no information was shared between the single actors. As Benjamin trusted Bernd’s consultancy experience and the tools that the consultant could take advantage of, no real discussion took place in these meetings. It was rather agreed in passing that the financing project would be continued by presenting the financial need and the business plan of the company to possible financiers. Benjamin summarizes: *“It was nice for a change to have someone in the business who really knew what he was talking about. Our consultant had advised many similar companies in similar situations beforehand. Also the tools he had at hand were great, I could really trust the results that he delivered.”*

However, before any banks or investors could be approached, the owners had to agree as well. Therefore, the owners’ meeting had to be called. Since all ownership shares are held by Björn and his two sons, the three of them form the owners’ meeting. In this bi-annual meeting, the three owners meet in the CEO’s office and all strategic decisions as well as those that could have far-reaching consequences are discussed and eventually taken. Thus, the owners had to also decide whether to accept the proposed financing need and continue to approach financiers. Benjamin as the majority owner and CEO presented the status-quo of the project to his father who heard for the first time about the huge growth prospects of company B. Even though both brothers have the majority of shares, it seemed to be important for them that their father was at least generally in favor of their plans. They did not want to force the company into a direction which the father was opposed to; they were aware that the business is their father’s work of a lifetime and thus wanted him to be on board. Nevertheless, Benjamin felt that he as CEO and majority owner should set the direction of the company. Bertil had prepared his Excel sheet with some graphs to make it easier for the father to understand what all the data was about. Bertil points out: *“Sometimes it is just better to have some visual data to demonstrate others what you think. I would say that in our firm, everything should be provable with data, otherwise my brother will question you until you don’t believe your arguments any longer yourself.”* Neither of the family members disapproved the financing project for the next five years and after a short ‘quasi-discussion’, all owners gave their approval.

As a next step, Bertil communicated the approval as representative of the family both to the consultant and the CFO, who then started preparing inquiries to potential financiers. During this process, Bastian met regularly with the CEO to inform him about the status-quo and ask for smaller operative decisions. It seems not to be an accepted norm in company B to simply go to the office of the CEO or to approach him in passing. Rather Bastian recalls that he had to call Benjamin and ask for a scheduled meeting even if it was only about a small issue. Even though Bastian is the CFO of the company, it seems that his business experience is not really valued by Benjamin and so it is the easy way out for him to simply approve what the CEO wants. Also Bertil slowly withdrew himself from his responsibility in the financing project. Since Benjamin did not like his proposal of consultancy firms and also hired others to re-do the calculation of the financial need in a more professional manner, Bertil got less and less eager to contribute his thoughts to his brother. Bertil mentions: *“Yes, in the beginning I was very active in our financing project, I had several tasks assigned but when the consultant entered our business, I thought that he could do it anyways better than me and he was also more respected by my brother, so I only contributed when my brother asked me to.”* In our eyes, even for him, the implicit strategy of the older brother is not clear. Next, the financing inquiries were sent to several banks with which the company had done business before or which the consultant deemed as good alternatives for financing the five-year plan but which the company B had not had worked with before. Each bank then sent representatives to the company where they presented not only the terms of the potential

financing agreement but also themselves. As this family firm had made bad experiences with one bank in the 1990s, they put a lot of weight on how they had collaborated with banks before and whether the working relationship was positive in their memory or not. Bertil explains: *“You know, I don’t know how big banks, or how banks that I don’t know, work. But I am sure that they work differently than my house bank which is located just around the corner from here.”* Especially for the banks that were experienced with company B it was important to highlight their personal connections and the trust that they built over years. We saw that it was particularly beneficial when company B had a contact person in the bank – Bruno – which they had known for many years. Bruno points out: *“I experienced that it is of highest importance to this company that we represent ourselves as a partner to the firm and the family who will go through thick and thin with them.”* However, we find it surprising that usually the contact between the house banks and company B goes solely through Bastian. Bruno adds: *“This is very unusual that I do business over years with a family firm but have never met the owner family.”* The banks do not engage with the owners, since they leave relationship-building to their CFO because they believe that handling banks belongs to his job description. Only when the banks presented their term sheets for the enormous financing project they met the owner family. For us this underlines again how the family and particularly Benjamin set the strategy but leave the execution to Bastian or other employees, only when it comes to essential decisions the owners participate directly. In the meetings with the banks which took place in the CEO’s office, the consultant as well as the directors were present. The banks informed about their terms and further provided a short introduction to the consortium agreement, the preferred way of financing for company B. As Bernd and the financiers possessed clearly more experience in the area of financing than the directors did, their proposals were followed as long as they were in line with Benjamin’s implicit strategy. Afterwards, Bastian and the consultant initiated several rounds where the single financiers had the possibility to change their terms in dyadic calls in order to appeal more to company B. For example, the banker Bruno told us that he sometimes called Bastian and took advantage of his personal relationship to engage in a conversation with him. Only after some time he would ask for details about the terms of other banks. He would then use this information to improve the offer of his own term sheet.

The consultant Bernd further initiated a workshop with the owners to discuss more in detail what the consequences of the term sheet would be for the family and how it could influence the ownership structure in the future. The workshop took place in a meeting room in the main building of the company. Bernd wanted to use the role of a facilitator in this workshop and lead the three family members to write small cards about topics and pin them on a board. He believed that the dynamic of a workshop could be more beneficial than one-on-one meetings. The consultant Bernd explains: *“Usually workshops are very beneficial for such a process because all owners have the opportunity to clearly state their mind and I as advisor receive a common picture of what the family wants.”* However, this technique did not match what the family felt comfortable with. Bernd mentions reflectively: *“I should have organized it differently, it was a complete mess. They did not want to follow my standard rules of how I planned to conduct the workshop”.* The workshop failed and Bernd had to fall back to individual meetings with Bastian and Benjamin.

Eventually, when all banks submitted their final terms, Bernd set up a meeting with the board of directors, in which a cost-utility analysis was used to rank the single benefits and disadvantages of each bank. However, *“in the end a ranking will provide you with the result that you want, you can decide the input in the cost-utility analysis so that the output fits with your gut feeling”* reveals Bastian. So the choice of the bank which would lead the consortium agreement was not driven by only the best terms but also other factors such as the personal relationship to the bank, the terms for owners’ loan or the behavior in potential industry crisis. It seems that these criteria were mainly decided by Benjamin with the goal to represent the interest of the family. Once the assignment was given to a specific bank to build a consortium agreement, the banks arranged the specific contracts among themselves. Only for the last round of approval, another meeting with the board of directors was required where each condition was thoroughly questioned in order to achieve the best contract for company B. Bastian and Bernd presented all the details but again it was up to Benjamin to decide whether to proceed with this contract. Ultimately, company B and the banks signed the contracts. The complete financing process took however four months longer than originally planned which would have been problematic to keep the liquidity if not the house banks had extended previous loans to company B.



## Conclusion

When asked how Benjamin saw his role in this financing decision, he stated that he was the driver behind the whole business. In his eyes this means that therefore he also indirectly drove the financing decision which Bastian was supposed to execute. This is also how Bastian saw his responsibility; he said he is the one who actually does things. The younger brother Bertil perceived his position rather humble and explained that he was simply a member of the project team. The consultant argued that he was the strategic head in all financial questions, which supports the role of Benjamin in taking the right decision.

### 7.2.1 Expert Interview 2: Informal Arenas as Process Accelerators

As we have seen in the findings of our case company B, the financing decision-making process evolved mainly in pre-arranged meetings such as the board of directors meeting or the owners' meeting. In company B, it is unwanted, thus uncommon, to discuss in passing or even to approach the CEO without appointment. This can lead to a rather inflexible process of decision-making; the individuals cannot act as quickly as when they could also take advantage of informal meetings to advance or speed-up decision-making. When talking to Daniel, who is the non-family CFO of a family firm, located in Southern Germany, he shared with us an example why flexibility in financial decision-making can be important.

Daniel's company experienced a severe fire in summer 2015 and the whole production facility burnt down. Naturally, it was essential for the company to resume production as quickly as possible. Daniel remembers: *"We were no longer able to produce at this site. We had to think 'how can we proceed?' and we had to decide fast."* When not only a drop in production but also the potential loss of jobs was at stake, the company did not have time to create a project team or follow a highly structured decision-making process. Daniel stresses: *"You have to take decisions on a daily basis. There is no time to ask for everybody's input first during a formal meeting."* At the same evening of the fire, Daniel called his craftsmen and asked them to submit a pricing proposal for the reconstruction. The next day at noon he had already received all offers. After the CFO had the terms of the artisans, he approached the insurance company as well as the house banks to arrange for the financing of the new building. He did inform only afterwards the family-member CEO of his plans and arrangements. Daniel argues: *"She trusted me blindly and well, I delivered her the results that I knew, were in her interest. Trust is key in such moments."* Daniel and the CEO did not have time to settle the terms of financing in official meetings so *"it was rather in passing that I informed her about what was going on and she simply accepted it."* Daniel further explained that such a high level of trust is not usual but that he had earned it over many years of collaboration and that it truly facilitates his role as CFO as he can take some decisions without having to consult the owning family first. Daniel closed the contract with the bank after two weeks, which he thought was very quick.

We believe that the relationship that Daniel had built to the CEO but also to the craftsmen and local banks enabled him to make a quick decision regarding the financing. It is very interesting how the urgency that forces you to take a quick financing decision changed the financing process of this company. While as Daniel mentioned the normal financing process in his firm takes many official meetings, project management and committees, urgency makes all these mechanisms obsolete and decisions are taken in passing or off the cuff.

## 7.3 Company C

As we arrived at the huge reception area of company C, it felt like entering a beehive. Every minute guests arrived or left the company. The bright entrance area was packed with people waiting for their meeting partners. The receptionist welcomed and guided us very friendly. We had the impression that she treated us in the same manner as she was used to do it for other important guests of the company. Even in the elevator, employees greeted us very openly and wished us a nice weekend. This experience still lingers in our mind. As soon as we entered it became apparent that even though the company is very large in size, the family values shape the company significantly.

### **Distribution of Roles, Purpose and Goal of the Company**

Company C is a globally acting second generation family firm and one of the leading providers of construction equipment and engineering solutions for construction sites. The company has more than 50 subsidiaries worldwide and currently employs over 7,000 people, who generated 1.3 billion Euro revenue last year. The company was founded in 1960s as a one-man-business, and since then has experienced a strong yearly growth. Currently, the company is headed by Christoph, son of the founder and responsible for sales and marketing, Clemens a non-family manager, who joined in 2005 and is in charge of the finance and organization department, as well as Carlos, who works as a non-family manager and head of production and engineering. It is worth to mention that each of these three managers has the same decision-making power in their executive management team meetings, since they are not organized in a typical CEO, CFO and COO structure.

Other family members influence the activities of the company mainly through an advisory board. Currently, it contains eight members: five family members, who also hold shares of the firm and three non-family members. Particularly two members of the advisory board have worked for many years in the financing industry and can thus consult the family firm on those topics. Christoph describes the orientation of the family: *“Our whole family is very loyal to the company. We want to keep the money in the company in order to enhance the long-term success of the company. For us it is important that the family values within the company are preserved and passed on to the next generations.”* All managers and family members are aware that this task will not be easy to preserve in the future when the family firm is constantly growing.

The family engages in numerous activities to spread the family values in the company. For example, during a world leading trade fair for construction equipment, Company C invites on behalf of the family important and long-standing customers, suppliers and bankers to an evening event, which takes place in an original Alpine hut with live music and a Bavarian dinner. Present family members welcome the guests, mingle and even sometimes dance with them. A participating banker, Casper, explains enthusiastically: *“This is something rare. Company C is such a big and global company, but you can still feel the values of the family. We were invited to many events from family firms, but that is unique, something very special.”* Also Clemens highlights this event for showing the family influence on the business. For him it is important that externals perceive the owning family and the family firm as very closely linked.

Besides an advisory board, the five owning family members come together regularly for official family meetings. These formal appointments, which even have an own logo, often take place in a hotel or private facilities and are moderated by an experienced lawyer. The goal of these meetings is to discuss not only the long-term strategy of the company but also other important topics such as the determination of equity ratio or debt ratio covenants. In addition, the family takes special care of informal family events, such as a skiing weekend with the extended family or joint city trips. The goal is to strengthen the family cohesion and as Christoph explains: *“It might seem that those events have more cultural purposes, but the more we as family talk, discuss and align each other, the smoother and faster are our formal business meetings.”*

### **Investment purpose**

Especially in the last two years, the company has been following a strong path of growth which requires investments in new factories and additional construction equipment. Those investments and a higher working capital demand lead to an increased funding need, which can be realized with different financial instruments. This is the starting point of the decision-making process.

### **Process**

Every year in October and November, the treasury department in cooperation with the controlling and group accounting department conducts a three and five year's detailed annual plan, which includes in particular the financial requirements of the growth strategy. Carl, Head of Treasury and the leader of this annual process, is a very experienced and respected manager who joined the company a few years ago. He and his team merge together all sub-budget plans and calculate lastly the financial requirements for the next financial year. During this process, Carl and his team also meet with responsible persons from the subsidiaries and evaluate and question their plans. Carl enjoys a high level of trust from the management board, as Clemens states: *“Carl is very competent and experienced and he knows exactly, what he is doing and how to lead such complex processes. He proved it so many times. Hence, I let him operate as freely as possible,*

and from time to time or when he needs my opinion, we meet in my office or have a coffee together in our vibrant company-owned coffee shop.” After the internal calculation process, Carl’s team created a sheet for potential banks, which states the volume of the finance purpose and how the company would like to structure the financing need.

In general, company C pursues a core bank strategy, meaning that they have ten preferred banks, which they approach regarding finance purposes. Asking Carl, what banks have to achieve to become part of this circle, he explains: *“We have to build mutual trust to a bank. This is an ongoing process, we start small and if the cooperation turns out successful we expand gradually. As soon they are classified as a core bank, they can expect that we are interested in a long-term partnership.”* It is important for the company to have trustful relationships with the banks. Also the banks’ understanding of the business model is key as past experiences have shown: in the early 2000s, the company had based its financial structure only on two core local banks, which both forced the company to deleverage, although the company already started investments in growth, which came along with a higher need for debts. Clemens described this situation as ‘life-threatening’ for the company and claimed that those banks did not fully understand the business model and what the family firm wanted to achieve. Since then, the company cancelled the contract with those two banks and set the whole finance strategy on a broader foundation with firstly new banks, which are bigger and operate globally, and secondly with additional financial instruments in order to become more independent from the bank sector. Until this date, the company still relies on close partnerships to banks, but always makes sure, that the relation manager of the banks fully understand company C’s business concept. Carl concludes: *“I guess we found the right balance between a trustful but still very professional relationship to our banks. But if a bank lost once the trust of the family, I should better not propose this bank as a further finance partner anymore.”* This attitude shows how the opinion of the family highly influences business decisions, even without explicitly engaging in the process.

After sending the proposal to the core banks, Carl invited all banks, who have sent suitable finance proposals. In the following, he and his team met representatives of the selected banks and discussed their concepts. Carl evaluated and compared all relevant proposals, conducted subsequent negotiations with banks in order to adjust fees or interest rates. Lastly, he presented to Clemens his final financing proposal. During this process, Carl had constantly informed Clemens about the status of negotiations during a meeting or a coffee break. Closing up this step, Carl’s proposal was discussed, sometimes slightly changed but in the end both managers were aligned for the next step.

The next important step is the approval of the executive management team meeting. This formal meeting takes place three times per month and lasts the whole day. Their members, Christoph, Clemens and Carlos make 25-30 decisions per meeting, which means that the topics have to be presented very compressed and summarized. Carl is used to this practice and creates a special presentation for this meeting: *“My presentation is not really based on figures or data. It is already compressed and more a qualitative assessment with a personal recommendation.”* Since Carl and Clemens have discussed the proposal already in advance, Christoph and Carlos can assume that the presentation in the executive team meeting also represents the recommendation of their head of finance. Nevertheless, it appears that those meetings are more than just an ‘alibi-event’ where decisions are let through on the nod. The members of the executive team are requested to share their insights and can also controversially discuss their opinion. Further, if a team member has doubts, decisions would be adjured or more information requested. Clemens agrees and states: *“Sure, we do have heated debates during those meetings, but they are always beneficial. However, in the end we rather convince the others through valid arguments. So far that has worked out very well.”* Christoph concludes: *“In the end, we make decisions together, that is very important in our corporate culture, but as soon as we have agreed on something, we are all committed.”*

In the stated case, the executive management team only discussed minor issues and gave their approval immediately. After the approval of the executive management team meeting, some decisions need a further approval of the advisory board, which convenes once a quarter. At this point, company C’s rule of procedure determines which decisions have to be approved. Since the proposed finance strategy is an important strategical decision, the financing proposal has to be presented to the advisory board.

In company C, the advisory board is an important decision-making instrument and has hence influence on each significant decision. Christoph established this board in the same years as he became a leading position in the company. He states: *“Our advisory board and especially our chairman, Carsten, have significant power. Our chairman makes sure that every single person works with the best of his or her knowledge for the long-term health of the family company.”* Further, the external board members are very experienced experts within their fields. They critically question decisions of the committee, but also support the whole decision-making process itself, as sparring partner or for a further external opinion.

One week before the advisory board meeting took place in a hotel, the company sent out a folder with all important documents and an agenda to the members. The members can prepare themselves and arrange possible questions or comments. During the advisory board meeting, a formal process takes place, meaning that the responsible manager of the executive team presents the topics from his area of responsibilities. The manager summarizes the concept and provides reasons for the decision of the committee. Related to the finance case, Clemens presented in a 20 minutes slot possible advantages and disadvantages, the selected finance instruments and the conditions of the banks. This was followed by a question and answers session and eventually the advisory board was asked for approval of the executive management team’s decision. The formal vote was taken by the chairman, who also moderated the whole meeting. The board unanimously approved the decision, and Carl initiated the final steps to signing and closing the contracts with the banks.

At first glance, it seems that those board meetings take only place to rubber-stamp already made decisions, in particular since Christoph is not only family member but holds also positions in the executive management team and advisory board. Thus, it may seem that the family values are already involved in each decision. However, we found out that the advisory board plays a central role in the decision-making process and the fact that decision have to be approved by the board can even lead to better outcomes.

Clemens especially stresses the role of the documents that were sent before the advisory board meeting as helpful in making better decisions: *“If you have to sell your concept in a self-explaining, summarized document and present it during the meeting in front of experts, I’m convinced that this automatically enhances the quality of your arguments. And enhancing the quality comes along with an even deeper analysis, better arguments and a careful weighting up of alternatives.”* Therefore, having the board meeting in mind, the managers are already influenced in the very beginning of a decision-making process.

Conducting the board meeting is only the end of the decision-making process. The real coordination and alignment process with the board members takes place earlier and in a more personal and informal setting. Christoph points out: *“The advisory board meeting takes only place once per quarter. That means, if a decision would be rejected or a member would say ‘I’m not convinced, go back to the start’, we would lose three months. Therefore, the management, but also the board members are interested in having discussed critical decision beforehand.”* Hence in this case, Clemens but also Carl asked those board members that are experts in the financial field for a critical evaluation of the proposal. Sometimes it is only a quick phone call or they meet for dinner to discuss ideas and concepts. Carl explains: *“Nobody wants that topics could escalate in such a big meeting. Hence we discuss in advance, ask for opinions and find agreement.”* It is important for Clemens that he can receive a first feedback from experts before presenting officially to the advisory board since he then still has time to re-work certain aspects of his proposal. We see that these dyadic conversations are the place where open discussion is requested and valued. It is important for the company that any deviating points of views are discussed beforehand, so that in the rare advisory board meetings a quick decision can be made.

## **Conclusion**

The decision-making process in company C is characterized by trust, empowerment and open discussion to find the best possible decision in the end. Hierarchy levels are less important, rather business experience and former track record are crucial. Carl classified himself as the main driver of the process, even though he is not part of the executive management team. Christoph considered himself more as a sparring partner as he assigned Clemens as leader of the process. Clemens described himself as an advisor.

### 7.3.1 Expert Interview 3: Aligning a Company to Family Values

In the findings of case company C, we have seen that the advisory board, which consists both of owners and of external experts, can play an important role in ensuring that the family firm pursues the strategic goals of the family. Bernd, the consultant who worked with company B, shared with us why advisory boards in general can be beneficial for family firms.

Bernd explains: *“Recently, I advised a large family firm which is run in the 3rd generation and I was astonished what role the advisory board played in guiding the general direction of the company.”* He further outlines that all owners participated in the advisory board as well as four non-family specialists. In that firm, the advisory board meets every two months to discuss the general outset of the firm and to crosscheck if the decisions taken by the management team are in line with the goals of the family. Bernd mentions further: *“In the advisory board meetings, the owning family can also make sure that the values and attitudes of the family are lived in the company as well. For example, they always stress the importance of sustainability in production and want to see how the management team translates those values into projects and products.”* The consultant shared his point of view that particularly when more and more generations receive ownership shares, it is important that there are regular opportunities to meet and discuss in order to ensure that all owners are united and agree about the general direction of the company. He adds that such meetings could take place among others as an advisory board or a family council. *“I have seen many forms of how families can successfully influence the direction of their family firm. It is not so much important where exactly they meet but rather that they meet on a fairly regular basis”*, Bernd concludes.

## 8. Analytical Framework

*In this section, we combine our theoretical framework with our empirical data to identify deep insights. We approach our findings from different angles in order to come up with a real understanding and sense making.*

### 8.1 Actors

In order to answer our research question about which actors play a role in the financing decision-making process, we analyze the practitioners involved in the process in the following. Applying the framework of Nordqvist (2012), actors can be distinguished in family or non-family members, who are internally or externally related to a family company. However, we argue that Nordqvist's external perspective has to be refined, since family firms involve in addition to non-family employees also external actors with different purposes and expect other contributions in a decision-making process. Further, external actors influence with different degrees of intensity this process. The following table 4 summarizes the actors who play an active role in the financing decision-making process in our three case companies. After having analyzed our case studies, we can cluster the involved actors as family actors and non-family actors. Thereby we especially differentiate between non-family actors, who are employed by the family firm and non-family actors, who supported the decision-making process. It is worth to mention that in each case company we found and talked to actors belonging to all of our three classifications.

		Case Company					
		A		B		C	
Family Actors	Owning Actors	Anton	CEO & Founder	Björn	Founder	Christoph	Business Executive
		Alexander	Project Manager	Benjamin	CEO		
				Bertil	Sales Manager		
Non-Family Actors	Employed Actors	Arne	CFO	Bastian	CFO	Carl	Head of Treasury
		Andreas	Business Executive			Clemens	Business Executive
						Carlos	Business Executive
Non-Family Actors	External Actors	Armin	Banker	Bernd	Consultant	Carsten	Chairman
				Bruno	Banker		Advisory Board
						Casper	Banker

*Table 4 – Conceptualization of Actors*

After analyzing the three presented cases, we identify different types of actors who play an influencing role in the decision-making process. Company A was substantially influenced by Anton, the patriarch of the company. He determines the overall strategy of the company and does not really rely on the opinion of the other actors. This is in accordance with Heck (2004) and Feltham et al. (2005), who state that an owner-manager who is still present in the business side of the company heavily influences the decision-making process. Arne, the CFO of company A has influence on the decisions of the owner, since he represents a typical Simmelian Stranger, as characterized by Nordqvist (2012). He enjoys utmost trust from all actors, which is mainly based on his long-term business experience, his interpersonal skills, but also his understanding that the values of the family cannot be excluded in a decision-making process. Habbershon, Williams and MacMillan (2003) and Hiebl (2013) confirm this outcome in their findings as they state that managers have to make sure that they align their strategy with the prevalent 'family' values. According to Blumentritt et al. (2007), the skills of a Simmelian Stranger foster a trustful and

fruitful relationship with the family, which Arne uses to incorporate his ideas or concerns in a decision-making process. This leads to a positive impact on a family firm's performance (Hiebl, 2014), which we can also derive from our analysis.

According to our analysis, external actors have a more important role in the decision process than generally expected. It is important to mention that we do not analyze external practitioners on an aggregate level, as observed by Jarzabkowski and Spee (2009). We describe them as individual actors, since their individual behavior and involvement in a decision process are of high importance and therefore deserve detailed attention. Company C established an advisory board to make sure that all decisions of the executive management team are aligned with the desired long-term values and strategy of the family. This combination leads according to Basco et al. (2011) to the best business results, which company C proves yearly. Company A maintains a strong and trustful relationship with its banks to have reliable partner in each economic situation. Not only the company fosters this relationship, but also the banks themselves put a lot of strategic effort into such profitable partnerships. Hence, those personal relationships can influence the decision-making process, since other finance partner might not be taken into account, even though they could have offered a more suitable finance product as seen in company A. However, a personal support service from a bank could also lead to a better decision, since advantages and disadvantages of a certain instrument are discussed more honestly. Anderson et al. (2003), Chua et al. (2011) and Uzzi (1999) include those positive aspects of external actors in their findings as well. Company B even has opened itself to a consultancy company in order to support its decision-making process in a best possible manner. This is mainly based on the fact that the CEO of company B trusts more in the expertise of external consultants than of his own managers. Summing up, many different actors influence a decision-making process. Our analysis especially demonstrates that external actor play a more important role than expected.

## 8.2 Arenas

For answering our research question in which places the actors meet during the decision-making process we try to better understand the arenas that appear during our interviews. Applying the theory of Nordqvist (2012), we can identify several arenas in our case studies that are used in the financing decision-making process. Strategic arenas can be characterized as venues where strategy is shaped through dialogues between strategic actors. Strategizing can occur in many places (Achtenhagen et al., 2003). For better understanding where the financial decision-making process evolves, we analyze in detail potential strategic arenas. We use the categorization of Nordqvist (2012) (see section 5.4 for a detailed description) for better clustering our findings. In contrast to Nordqvist's model of arenas, our data does not reveal the existence of 'hybrid arenas' in the context of a financial decision-making processes. Additionally, we introduce external arenas and add those to the theoretical development of Nordqvist's model. As explained before, we see that in the financial decision-making process external actors such as bankers and consultants play an essential role. We label the arenas in which these actors meet and interact as 'external arenas'. We believe that by adding a third kind of arena to Nordqvist's model, we do justice to the actual happenings during our analyzed processes. A classification of the arenas identified in our case companies can be found in table 5.

		Case Company			
		A	B	C	
Activities	Formal Arenas	Family Context	▪ -	▪ Owners' Meeting	▪ Official Family Meetings
		Business Context	▪ Top Management Team Meetings ▪ Advisory Board Meetings	▪ Board of Director Meetings	▪ Executive Management Team Meeting ▪ Advisory Board Meetings
		External Context	▪ Bank Appointments	▪ Meetings with Consultants ▪ Consultant's Workshop with Owners ▪ Bank Appointments	▪ Bank Appointments
	Informal Arenas	Family Context	▪ Family Breakfast	▪ -	▪ Family Outings
		Business Context	▪ Mentoring Sessions ▪ In-Passing ▪ Coffee Breaks ▪ Dyadic Conversations	▪ -	▪ In-Passing ▪ Coffee Breaks ▪ Phone Calls with Board Members
		External Context	▪ Bank visits for special occasions	▪ Phone Calls with Banks	▪ Events for Externals

Table 5 – Classification of Arenas

Comparing how the three case companies use arenas situated in the family context, we see a rather diverse picture. While the family of firm A meets only in informal settings, the family behind company B meets solely in formal settings. Family C meets in both kinds of arenas. We argue that the use of different arenas depends on various factors such as number of owners or importance of 'family' for the company. For example, in company A the family is rather small and all involved members are active in the business. Therefore, official meetings are not needed as all family members can meet regularly in informal arenas as the second-breakfast. However, as we also classify this arena as being very closed; there are clear boundaries regarding which family members can join this arena (Melin, 1998; cited in: Nordqvist, 2012). For example, the wife of Alexander is not invited to join the breakfast, as being part of the extended family is not considered sufficiently important to join. We see Anton as the gatekeeper to this arena. He as the patriarch can decide who is allowed to join since the second-breakfast takes place in his office. In company B, the value of 'family' is not strongly incorporated in the family firm. Therefore, the owners only meet in formal meetings when decisions regarding their shares have to be made. Otherwise, the business side of the company dictates the direction of the firm. In company C, both formal and informal family arenas are used to advance strategy. The informal meetings are not designed to take business decisions but as shown in this case, they are important to set the tone for further discussion. This is also confirmed by the findings of Nordqvist (2012) who mentions that informal meetings are significant for strategy development even when only implicitly. In our



eyes, by meeting more frequently and in different settings a better exchange of opinions takes place and ultimately results in the alignment of the family.

Regarding the business arenas of our case companies, both company A and C engage not only in formal settings but also in informal ones. This allows the actors to move between several arenas during the financial decision-making process. We see that in both companies informal business arenas are used to openly discuss opinions and deviating points of views, which allows them to process more quickly in formal arenas. Also Achtenhagen and colleagues (2003) point out that strategic arenas can occur simultaneously at different layers of the organization. Oftentimes, these discussions result in thoroughly evaluated decisions. In our opinion, the usage of informal arenas in the financial decision-making process leads not only to more thought-out and converse ideas (Hendry & Seidl, 2003) but also to more flexibility in the process itself since actors can meet more spontaneously. This becomes also apparent when analyzing company B, which uses only formal business arenas. In their arenas, there exists no real place for discussion between the actors and the process is rather stiff, as the CFO for example has to arrange an official meeting each time he wants to talk to the CEO. This process is in our eyes less effective and hinders the development of new insights. Also in the expert interview 2, an urgent financing decision process was only possible as the practitioners could use informal arenas to advance. We see that informal arenas provide actors with more flexibility than formal arenas. Thus, we agree with Brundin and Melin (2012) that the interplay between formal and informal arenas leads to more effective strategizing. We do not find evidence for arena confusion as proposed by Nordqvist (2012) when actors use different arenas.

Furthermore, we identify several external arenas used in our case studies, which are characterized as interactions of family members or business members with external practitioners such as bankers or consultants. Interestingly, all three companies use both formal and informal arenas during the process of making a financial decision. Some informal arenas such as events or birthdays visits are not directly linked with the specific decision process but help to develop the general relationship with the company. For instance, family firm A highly values the visits of their personal banker for important dates. We believe that such acts of friendship create a long-term trusting relationship between the company and the bank. As a result, company A considers only this particular bank for financing their investment as stated before. Therefore, we are convinced that also past events have indirect but strong influences on the financing decision-making process. This is also in line with what researchers found out about other strategic topics in family firm context, namely that the actual strategic process is rather an ongoing process than one with a fixed start and end (see for examples Brundin & Melin, 2012; Haag, 2012). As we have seen so far, company B does not engage in informal arenas in the family or business context. However, in the external context it does. This can be explained rather easily: the informal engagement with the banker is initiated by the banker and not by a member of company B. So, the CFO is not the one who disrupts the norm of company B but he only reacts to the calls of the banker.

## 8.3 Practices

By analyzing the practices which are embodied in our case companies, we answer our research question about how the actors interact during the financial decision-making process.

### 8.3.1 Classification of Micro-Practices

In the findings section (chapter 7), we presented how the financing decision-making process evolves in different arenas in family firms. Analyzing the specific activities of the single actors, we identify several practices that guide behavior and actions. As defined before, practices are norms and routines that exist in a company (Whittington, 2006). What we label micro-practices refer to the practices that influence the specific micro-activities of individuals. We discuss in detail which practices we identify and how they manifest themselves.

Quotes from the Case Studies	Micro-Practice
<p><i>“He is the majority shareholder and CEO; of course he will have the last word in a discussion.” – Bertil about Benjamin</i></p> <p><i>“I practically own the business. Therefore, I commit more but I also get to pick the direction of the company.” – Benjamin</i></p>	<b>Assigned Power</b>
<p><i>“His opinion is God’s law.” – Alexander about his father</i></p> <p><i>“The company is his work of a lifetime, so I think he deserves to decide.” – Arne about Anton</i></p> <p><i>“I can follow my gut feeling; I don’t have to justify my decisions.” – Anton</i></p>	<b>Granted Power</b>
<p><i>“It is really hard to persuade my father or even harder to change his position, if he already has an opinion. It is only possible, if you can present really good and valuable data.” – Alexander</i></p> <p><i>“Data can make all the difference whether your argument is valid or not” – Bertil</i></p> <p><i>“They receive all data one week in advance so that they can get a thorough understanding of what we are up to.” – Clemens about the advisory board</i></p>	<b>Persuasion through Data</b>
<p><i>“I have worked for 20 years in a bank so I think I know what I am doing. And even Anton believes that I can handle the banks.” – Arne</i></p> <p><i>“I think the most important thing was that he had the experience with this kind of approach, so we could trust him.” – Bertil about consultant</i></p> <p><i>“In our advisory board we have two experts on financial instruments. Of course they will challenge our ideas and that’s what they should do!” – Clemens</i></p>	<b>Persuasion through Business Experience</b>
<p><i>“Well, it seems that the proposals that I made were good enough and I also didn’t commit any bigger mistakes; that is how you can grow trust.” – Bastian</i></p> <p><i>“I have conducted many similar tasks successfully before, so my boss trusts me that I will succeed again and grants me a lot of freedom in the process.” – Carl about Clemens</i></p>	<b>Persuasion through Track Record</b>
<p><i>“With my brother you have to know when to pick a fight. But honestly, usually it is not worth it as he never lets me win anyway. So it is just faster if I do what he wants right away.” – Bertil</i></p> <p><i>“He tells me ‘that’s how we do it’ and then I’ll simply implement it this way.” – Bastian about Benjamin</i></p>	<b>Rubber-Stamp</b>

Table 6 – Classification of Micro-Practices

The first practice is labeled as ‘assigned power’. We define it as the norm that one person in the business always has the final say and other members have to accept this. We have seen that this practice exists only in our case company B. Benjamin is the CEO and the majority owner of the family firm. He has a very strong opinion in which direction the company should evolve and tells his employees and fellow family members exactly what is the correct way of doing things. Due to his formal position power and his majority ownership stake, he is able to push through his ideas even against the will of others. However, we also believe that this ‘assigned power’ practice leads to a decrease in motivation and effort of others when they cannot contribute with their ideas and knowledge. After some time, others withdraw themselves from even trying to convince Benjamin. Therefore, the practice ‘assigned power’ leads to the fact that the fortunes of the company are solely in Benjamin’s hands.

Another practice that actors can use to accomplish strategic work is named as the practice 'granted power'. This practice refers to the norm that practitioners can argue with the help of respect that others award them. We identify this practice in case company A where the founder of the business still sets the direction and others have to accept it. Oftentimes, the founder is the single decision-maker (Feltham et al., 2005) which is confirmed in case company A. Anton is the creator of the family firm and therefore, his son but also employees accept his ideas and opinions willingly. They respect him and his work of a lifetime and hence let him have his own way. Even his son holds back with own contributions as he believes that his father knows what is best for the company. We see it thus as a norm in company A, that whatever the founder of the business says is followed and not openly questioned in the formal meetings. We point out the influence of the founder on decision-making already in the analysis section about actors but we want to stress here that this micro-practice underlines how the founder exerts major power which is also in line with previous research (Kelly et al., 2000).

The practices 'assigned power' and 'granted power' are in our opinion related: both are used by powerful individuals who can strongly influence the strategic outset of the company, because their decisions are not questioned. Both practices are fueled by power and particularly by the power that others in the company assign to the practices. The main difference between both is that 'assigned power' is driven by the formal power of being CEO or having the majority of shares, while 'granted power' is related to the respect that others have for the individual and his or her legacy. Regarding the outcomes of the practice 'granted power' and 'assigned power', we see them as very similar: We believe that it can be detrimental for the financial decision-making process when only one point of view is considered as possibilities for financing which could be overlooked or misinterpreted. We have seen in the case companies that it is hard to work against the two practices, especially as long as the firm is successful. However, including more and particularly deviating opinions in the financial decision-making process can lead to consider different perspectives and possibly to take better decisions. This is also confirmed by findings where the positive influence of diverse thinking on the quality of decision is shown (Olson, Parayitam, & Bao, 2007). We discuss more in detail the advantages of diversity and discussion when analyzing meso-practices in the next section.

A practice that we identify in all three case companies is 'persuasion through data'. This practice implies that it is a norm that data is used to argue or move forward the decision-making process as this is the accepted way in the company. In company A, we have seen that employees have to thoroughly prepare their arguments and provide sufficient data to support them when they want to convince the founder. Everyone in the family firm knows and accepts this norm. The founder has such a strong grip on the company and exerts his 'granted power' for making decisions, so that he wants to see evidence in form of numbers and graphs if he should follow a different opinion. It is similar in company B, where many graphs and presentations are prepared to demonstrate to the CEO the validity of an argument. In our case company C, we have seen a different usage of data. On the one hand, extensive data in form of tables, calculations and argumentation has to be sent in advance to the advisory board meeting so that the experts can see whether the directors can justify their proposals. On the other hand, for the executive management team meeting the practitioners do not require Carl to support his proposal of financing instrument with data since they trust his verbal evaluation. So, we can see that even in the same company, the norm to back up arguments with data does not apply to all occasions and arenas. We believe that having the practice 'persuasion through data' as a norm can positively influence the decision-making process. On the one hand, it ensures that arguments are backed up with evidence and makes them thus more reliable. On the other hand, it also enables individuals that might find it difficult to put forward their ideas to strengthen their point of view by supporting them with data. Hence, 'persuasion through data' can be very beneficial for the financing decision-making process as it ensures that more and different perspectives are put forward which will eventually result in a better decision (Olson et al., 2007).

Another practice that is embodied in all three case companies is 'persuasion through business experience'. We define 'persuasion through business experience' as a norm that expert knowledge is accepted to fall back to when making arguments. The experiences that practitioners have gained over many years are valid to underline individual opinions and therefore to add authority to the points made. In company A, we have seen that it is difficult to be of a deviating opinion to the

founder's view. However, the CFO can support his arguments as he worked for many years in a bank. The founder values this knowledge and experience; hence the CFO can take advantage of this norm in order to advance his ideas. The CEO of company B pushes his opinion forward through his formal power. However, when hiring a consultant who is a specialist on financing topics, the consultant can convince the CEO to consider other perspectives. However, the business experience possessed by employees does not have sufficient weight to be considered by the CEO. Depending on the occasion, a practice may be used and accepted, or may be used but rejected. Also in company C, expert knowledge can have a high influence. For example in the advisory board, two financial experts have the specific task to challenge the plans of the business. Also the employees can support their arguments with the business experience when they worked for several years in the industry such as the Head of Treasury. Learnings from experiences can impact the decision-making as part of the intuition of employees (Dane & Pratt, 2007). We see that by having the practice 'persuasion through business experience' embodied in the culture of the company, employees can influence the decision-making process irrespective of their formal position. Therefore, we believe that by granting this practice, family firms can highly benefit from the richness of experiences that members of the company possess and hence arrive at better decisions.

'Persuasion through track record' is a practice, which refers to the norm that time spent in the particular company, shared experiences and previous episodes of success can provide practitioners with a credit of faith, which they can apply to strengthen their position. In our case company B, the CFO can push forward his ideas to some extent as he has had past successes and can thus argue with them to prove that also in a present situation he will make the right decision. We found a similar scenario in company C, where the CFO grants the Head of Treasury a high level of independence as Carl has already succeeded in similar financing decisions in the previous years. As this practice is linked to trust in others, it can also facilitate a short decision-making process as confirmed by Blumentritt and colleagues (2007). In case company A, we do not find signs that this practice exists. However, as the interviewed practitioners Alexander and Arne have both been working only since recently in the firm, it could be the case that it takes longer time to develop a basis for this practice. Having 'persuasion through track record' as a norm can have advantages for the decision-making process as individuals are given more freedom in proceeding as expert interview 2 confirmed. However, we argue that by placing trust in individuals based on past achievements can also be dangerous when too much freedom is given and the process develops not as desired. This means that even when the track record of individuals seems impressive, it needs to be secured that the decision-making process evolves in the desired directions.

The last practice that we observe in our case companies is 'rubber-stamp'. We can define this practice as the fact that decisions or actions are automatically approved without questioning them. In company B, the actors simply execute the orders of the CEO. They have grown tired of trying to convince the CEO who has a very strong opinion and sets the direction of the company. Therefore, the employees retreat to simple execution. This has become a routine. In addition, the CEO expects his employees to follow directly his orders. This embodied practice highly influences the decision-making process as it reduces the contribution of others and decreases the motivation of employees when they do not have the opportunity to make their ideas heard. As research shows having unmotivated employees who cannot contribute with their ideas leads to worse outcomes (Barak & Levin, 2002). By simply following the decisions of the CEO, opportunities to arrive at better decisions are reduced. Therefore, we regard this practice of being detrimental for the financial decision-making process.

### 8.3.2 Interplay of Micro-Practices

We argue that the single practices influence each other as oftentimes at specific occasions the same combination of practices occurs. Micro-practices connected to power occur usually in combination with 'rubber-stamp'. When one individual is guided by 'granted power' or 'assigned power', others who want to make their ideas heard will eventually fail at the dominance of the holder of the power practices. As a reaction, they retreat simply to acknowledge the decisions of the practitioners who possess 'granted power' or 'assigned power'. Particularly in case company B, we see evidence of this. In case company A, the patriarch also uses his 'granted power' to realize his ideas. However, managers 'rubber-stamp' his decisions in formal arenas, but have the

possibility to discuss his ideas in informal arenas, which case company B in the same context prevents. Therefore, we state that ‘rubber-stamp’ only occurs simultaneously with ‘granted power’ or ‘assigned power’ as these micro-practices influence each other.

Furthermore, we explore that some micro-practices are more dominant than others. For example, when the micro-practice ‘granted power’ guides the behavior of an individual in an arena, other practitioners in this arena might be influenced by different micro-practices such as ‘persuasion through data’ or ‘persuasion through business experience’ and try to fall back on them to advance the decision-making process. As ‘granted power’ is more dominant than the other micro-practices, they cannot flourish. In other words, as long as a person who can actively take advantage of a dominant micro-practice is present, other micro-practice and hence ideas are hindered. We observe this dominance of practices both for ‘granted power’ and for ‘assigned power’. Therefore, it is essential that also arenas exist where the dominant micro-practices cannot occur, so that the remaining identified micro-practices ‘persuasion through data’, ‘persuasion through business experience’ and ‘persuasion through track record’ can be beneficial for the financing decision-making process.

Lastly, we want to point out that in order for micro-practices to be successful, they need to be embodied in the company. An illustrating example is the failed workshop that the consultant in company B hold. He tried to use a facilitated workshop in order to work on some details of the banking contract with the owners. However, since this method is not in line with the norms and routines carried by company B, this approach was not valued and ultimately failed. Whittington (2006) explains that practices introduced by externals to a company have to prove useful and legitimate if the practice should become a recurring practice for the company. We argue that in company B this was not the case. A very similar example to the failed workshop is discussed by Hodgkinson and Wright (2002). They observe a strategy process workshop which fails as the participants are too emotionally stressed by the topic to discuss. Whittington (2006) discusses this workshop also as an episode of strategy and points out how the single elements of SAP play together in eventually failing the workshop. In our eyes, it is important to demonstrate in our findings not only the practices that prevail as they are norms embodied in the family firm, but to also give room to show deviating outcomes such as when externals try to introduce practices not fitting with the family firm. We believe that this increases the value of our findings for research.

### 8.3.3 Meso-Practices and Arenas

As shown in the last section 8.3.1, we see several norms and routines that guide the micro-activities of individuals. When analyzing the happenings on an aggregate level and by combining them with our theory of strategic arenas, we can identify two meso-practices. What we label meso-practices are norms and routines that prevail in the company but rather than influence the micro-activities, we see that they guide the happenings on an organizational level. Our classification of micro and meso-practices is guided by the presentation of micro, meso and macro praxis by Jarzabkowski and Spee (2009) which allows us to extend the theoretical understanding of SAP.

Our findings show that the two meso-practices prevail in specific strategic arenas: ‘conformity’ in formal arenas and ‘friction’ in informal arenas. In the decision-making process each meeting follows in our opinion the implicit goal to make a decision and to align the practitioners behind this decision. However, there are two ways how to reach this goal. On the one hand, practitioners can use ‘conformity’ which is the norm that all actors agree to the proposed idea without questioning it or raising doubts. On the other hand, ‘friction’ refers to the embodied norm that all actors are required and welcome to discuss openly and mention concerns or new insights. From our data it becomes apparent that each meso-practice appears only in one classification of arenas and that also several micro-practices play a role in the prevalence of the meso-practices. In the following, we will demonstrate for each case how the meso-practices occur.

Company A’s decision-making process in formal arenas is mainly driven by a ‘granted power’ practice through the owner of the company. Anton uses official management meetings to reach ‘conformity’ of his ideas. However, as we analyze, the managers respect the ‘granted power’ of Anton as it is the norm that he can decide without others questioning him. In order to still discuss ideas openly, the managers switch to informal arenas to discuss possible advantages and disadvantages of the owner’s perspective. Thereby, other micro-practices such as ‘persuasion

through business experience', 'persuasion through track record' and 'persuasion through data' are norms used to controversially discuss current topics and to find a common decision. However, this is only possible since the owner and hence his micro-practice of 'granted power' is not involved in such dyadic meetings. 'Friction' as meso-practice is thus enabled by the absence of another micro-practice. Therefore, we see clearly that it is a norm in formal meetings with the owner to have 'conformity'. In the informal arenas practitioners can make use of other micro-practices such as 'persuasion through data' to initiate open discussions. In these arenas, 'friction' is the norm. We see for company A that arenas following 'conformity' and 'friction' alternate. Through this interplay between different arenas and hence meso-practices, the actors in company A can eventually arrive at a good decision: they find ways both to respect the power of the owner in formal arenas and openly discuss in informal arenas. We believe that it is very beneficial for the process that they can take advantage of differing meso-practices and micro-practices. Moreover, it seems as if the actors in this company also feel that they have a stronger say in the decision outcome.

Case company B is characterized through a decision-making process which only takes place in formal arenas. The CEO is very eager to assert his opinion and therefore his 'assigned power' is predominant in all meetings. The other managers have accepted this situation and it has become a norm to 'rubber-stamp' the vision of the CEO in order to have 'conformity'. However, 'friction' as a meso-practice is according to our analysis not utilized, since the owner sees no advantages of informal meetings. Hence, the CEO prevents an interplay between both meso-practices, which lead to the fact, that decisions are primarily based on formal meetings and therefore without the benefit of other practices such as 'persuasion through business experience' or 'persuasion through track record'. However, we believe that diverse opinions in a decision-making process, which especially occurs in the simultaneous usage of both meso-practices, leads to more evaluated and accepted decisions. This has for instance implications for the motivation of actors to engage in discussions.

Family firm C lives and cultivates both meso-practices in its daily business activities despite its large size. As analyzed, the business executives are aware that a strong decision-making process needs 'friction'. However, due to the company size, the formal executive management team meetings are organized by a stringent decision-making process, where 'conformity' is predominated. Therefore, 'friction' is lived in informal arenas, where involved managers use their 'persuasion through track record', or 'persuasion through business experience' to evaluate and discuss a decision proposal. The outcome influences the decision proposal, which will be discussed in formal arenas. Again, we believe that the interplay between both practices leads to a thoroughly evaluated decision-making process.

Summing up, diversity in a decision-making process tends to foster the quality of the outcome (Wanous & Youtz, 1986). When different opinions clash, it can eventually also result in better decision-making. This can be explained through process and cognitive conflicts and their effect on performance in family firms (McKee, Madden, Kellermanns, & Eddleston, 2014). Process conflicts arise from dissents about how goals should be reached, while cognitive conflicts are about the goal itself (Kellermanns & Eddleston, 2007). A moderate level of these two kinds of conflict can lead to better performance and decision-making (McKee et al., 2014), also as a consequence of the creative abrasion taking place in these conflicts. Creative abrasion stands for the process that different approaches and ideas 'grate' against each other until an eventually better concept is created (Skilton & Dooley, 2010). Therefore, we see it confirmed that the meso-practice 'friction' can benefit the financial decision-making process. We see in our case studies that the meso-practices 'friction' and 'conformity' alternate in the financial decision-making process and can thus conclude that diversification in practices and arenas can lead to better decision-making.

#### 8.3.4 Arenas as Practices

In the following, we point out that certain arenas themselves can also be a practice. We analyze the role of arenas in the decision-making process and it becomes obvious that some arenas are routines, which significantly influence the process. One example is the second-breakfast in company A. It has become a routine to meet in this arena on a daily basis and general strategic directions are set here. The decision to invest was taken already in the very first breakfast-

meeting. Hence, it is undeniable that this arena has a strong influence on the decision-making process. Additionally, the daily meetings between the non-family CFO and the son of the founder are in our eyes a practice as well. It is a routine in the company that the two practitioners meet in this informal arena to discuss opinions and decisions. In our opinion, these meetings are particularly important for the business as it prepares the relationship between CFO and future CEO once the owner retires. Also for the financial decision-making process, this routine provides both actors the opportunity to discuss outside the range of the owner.

Furthermore, we want to point out that it can be interesting to look at what is not there; in case B, informal arenas do not exist (with the exception of external informal arenas as long as they are initiated by externals). It is the norm in case company B that informal arenas are not desired or tolerated. As explored before, this might have negative consequences on the financing decision process, as the practitioners cannot state and discuss openly their opinion. Hence, the absence of informal arenas can also be seen as a practice in this company. For company C, we argue that the installation of a coffee shop in the middle of the firm has started the routine and acceptance of having coffee with colleagues. This opens up many possibilities for informal arenas and as we have seen in our decision-making process, the actors take advantage of this arena. Therefore, we also see the cafeteria in company C as a practice that influences the strategic work in the company.

Concluding, we believe that some arenas are practices at the same time. These arenas occur not only during the actual decision-making process connected to a specific financing decision; rather the arenas take place unconnected to the process. Therefore, we argue that the influence of these arenas is more far-reaching than it might appear. Through these arenas, the financial decision-making process is influenced even before the company starts considering the financing. We see again confirmed that financing decision-making processes in family firms occur over a longer period and cannot only be seen when the actual financing decision is taken. These results have also be seen in similar studies about strategizing in family firms; for instance, Haag (2012) concludes that the succession process evolves over time and is integrated in the company while Brundin and Melin (2012) point out that strategy is created in day-to-day conversations rather than in specific strategy meetings or projects.

## 8.4 Summary of the Analytical Framework

After having analyzed the main parts of our findings, we now conclude by presenting the broader picture. This allows us further to answer our first research question, namely “how does the financing decision-making process evolve?”

	Family Arenas		Business Arenas		Externals Arenas	
	Formal	Informal	Formal	Informal	Formal	Informal
<b>Actors</b>	<ul style="list-style-type: none"> <li>Family Members</li> </ul>	<ul style="list-style-type: none"> <li>Family Members</li> </ul>	<ul style="list-style-type: none"> <li>Family Members (with business position)</li> <li>Non-Family Members</li> </ul>	<ul style="list-style-type: none"> <li>Family Members (with business position)</li> <li>Non-Family Members</li> </ul>	<ul style="list-style-type: none"> <li>Family Members</li> <li>Non-Family Members</li> <li>External Actors</li> </ul>	<ul style="list-style-type: none"> <li>Family Members</li> <li>Non-Family Members</li> <li>External Actors</li> </ul>
<b>Forms of Arenas</b>	<ul style="list-style-type: none"> <li>Owners’ Meeting</li> <li>Official Family Meetings</li> </ul>	<ul style="list-style-type: none"> <li>Family Breakfast</li> <li>Family Outings</li> </ul>	<ul style="list-style-type: none"> <li>Top/ Executive Management Team Meetings</li> <li>Advisory Board Meetings</li> <li>Board of Directors Meeting</li> </ul>	<ul style="list-style-type: none"> <li>Mentoring Sessions</li> <li>In-Passing</li> <li>Coffee Breaks</li> <li>Dyadic Conversations</li> <li>Phone Calls with Board Members</li> </ul>	<ul style="list-style-type: none"> <li>Bank Appointments</li> <li>Meetings with Consultants</li> <li>Consultant’s Workshop with Owners</li> </ul>	<ul style="list-style-type: none"> <li>Bank visits for special occasions</li> <li>Phone Calls with Banks</li> <li>Events for Externals</li> </ul>
<b>Meso-Practice</b>	Conformity	Friction	Conformity	Friction	Conformity	Friction
<b>Micro-Practices</b>	<ul style="list-style-type: none"> <li>Assigned Power</li> <li>Granted Power</li> <li>Rubber-Stamp</li> </ul>		<ul style="list-style-type: none"> <li>Persuasion through Data</li> <li>Persuasion through Business Experience</li> <li>Persuasion through Track Record</li> </ul>			

*Table 7 – Framework of the Financing Decision-Making Process*

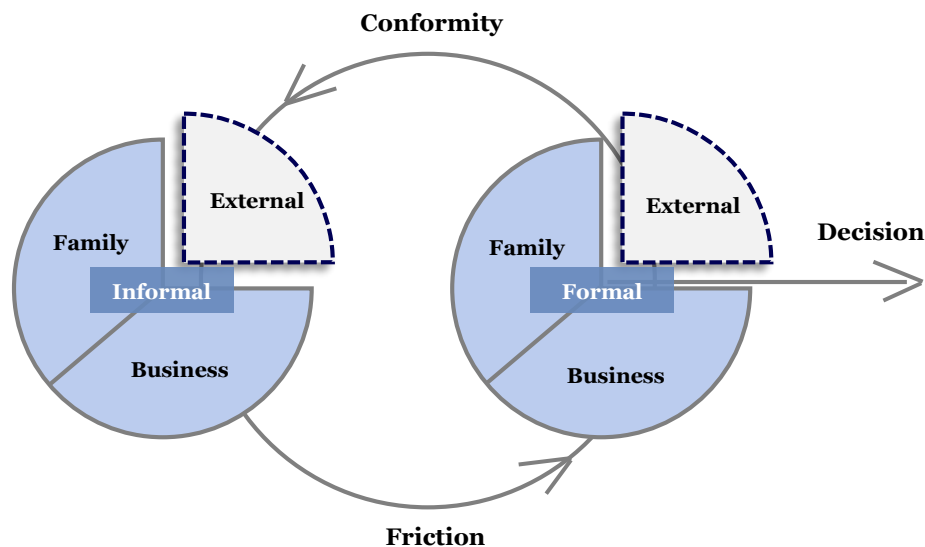
We see that the financing decision-making process in family firms takes place in six different classifications of arenas: family formal and informal, business formal and informal as well as external formal and informal. This extends the model of strategic arenas presented by Nordqvist (2012) as we argue that external actors play an essential role in our process and therefore need to be considered separately. Not all practitioners have access to all arenas. We find traces of open and closed arenas (Melin, 1998; cited in: Nordqvist, 2012), where closed arenas are controlled by dominant coalitions who can decide who is allowed in arenas and who is not. An illustrating example is the informal breakfast meeting where only three family members can participate. Brundin and Wigren (2012) point out for instance that the exclusion from arenas in family firms might be different from exclusion in non-family firms. In our eyes, this is particularly true for non-family members who are excluded from family arenas but we see this also for other individuals such as the owner of company A who is excluded from informal business arenas. In general, exclusion is seen as detrimental for a company as it hinders work force diversity (Barak & Levin, 2002), negatively impacts the organizational culture (Brundin & Wigren, 2012) and the company’s performance (Van Knippenberg, De Dreu, & Homan, 2004). Exclusion can also influence negatively the wellbeing of individuals (Härtel & Panipucci, 2007). However, our



findings point more in a different direction. As we have shown, it can also be beneficial when some arenas are not open for everyone. This is the case when individuals who can use strong micro-practices are excluded. When the owner of company A is absent, other managers can discuss more openly as the arena is not influenced by ‘granted power’.

Furthermore, we see that many practitioners play significant roles in the process. We observe in all cases that family members are involved in setting the general direction of the financing decision or in giving the final approval. Furthermore, as expected several non-family managers in roles such as CFO or Head of Treasury drive the single steps of the process. Additionally, we see that external actors are actively involved in the process, either on the supply side as financiers or by accompanying the decision process as consultant. This answers not only our research question about the actors in the decision-making process but also highlights that many external actors play a vital role in it. In our cases, many actors can use different arenas to advance the financing decision-making process. As pointed out before, particularly the alternation of formal and informal business arenas is beneficial and also answers our research question, where the financing process takes place. We explain this through the different prevailing meso-practices in the arenas. While formal arenas are guided by ‘conformity’, informal arena can lead to ‘friction’ when different opinions can be discussed. The meso-practices are connected to the micro-activities that guide the specific actions of individuals. However, in some formal arenas ‘friction’ is accepted, but due to factors, such as time pressure or availability of participants, managers try to avoid in-depth discussions and rather discuss it beforehand in informal arenas.

Some micro-practices are more dominant than others, which is the reason why it is important to find arenas where also alternative micro-activities can flourish. As mentioned before, such diversity in perspectives can lead to better decisions. Through the alternation of informal and formal arenas, we can see that the financing decision-making process in family firms is far from linear as we assumed in our initial model. We point out that the process is circulating between the two kinds of business arenas until a common decision is taken. Rather late in the process, externals are involved in the process regardless of being consultants or bankers. Family meetings in formal or informal constellation either initiate the process or approve it in a very last step. Therefore, the role of the family, even in bigger family firms, should not be neglected. This is also in line with the findings of others who explore decision processes in family firms (see for examples Carney, 2005; Fiegener, 2010).



*Figure 4 – The Family Business Cycle of Decision-Making*

We illustrate our main findings in the Family Business Cycle of Decision-Making in figure 4. There are informal and formal arenas that exist in both the family and the business context. The formal arenas create conformity and pass the outcomes on to informal arenas. In the informal arena,

friction can occur which we see as beneficial as the discussion of different opinions and ideas can lead to a more thoroughly evaluated decision. The outcome of the informal arenas can then be used in the formal arenas again. Through the passing on of outcomes from one arena to the next, a cycle occurs until a final decision is taken. We have demonstrated that the alternation between the two different kinds of arenas is very important in the financing decision-making process and is therefore the core of our Family Business Cycle of Decision-Making. In our model, we also highlight that external formal and informal arenas can occur, once external actors become involved in the process. These arenas contribute then further to the alternation between conformity and friction. After several alternations, the practitioners eventually take a decision.

The starting point of a decision-making process can occur in formal or informal arenas as the circle illustrates. Some arenas such as informal externals or informal and formal family arenas can set unconsciously the direction of the process even beforehand. Examples include the long-term relationship of the bankers with companies or also as demonstrated by one of our expert interviews, the events of consultancies that are only expected to pay off indirectly or over a longer time horizon. We also see that families determine through their actions and values the overall strategy, which also influences the financing decision. The long-term impact of family values on the company is demonstrated in theory as well (Heck, 2004; Mustakallio et al., 2002). Hence, the financing decision-making process initiates much earlier than it might appear.

This leads to the conclusion that the financial decision-process is hard to grasp in its complexity. Many small and seemingly unimportant conversations in-passing and events that occurred long before can strongly influence the process and its outcomes.

## 9. Discussion

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*In the discussion, we shed particular light on three main concepts that appeared during our analysis. By discussing them more we advance our analysis and apply a funnel approach where we show how we get from a rich analysis to the main insights of our study.*

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After analyzing our cases, this section discusses three main arguments, which are all based on the finding that an interplay between friction and alignment leads to a better, well evaluated decision. The first argument deals with the influence of family members and their impact on decisions and concepts (9.1). The second argument calls for a variation of arenas, where family and non-family managers can meet and discuss (9.2) whereas the last argument deals with the fact that trust plays a crucial role especially for non-family members and externals (9.3).

### 9.1 Role of Family in Decision-Making Process

As our research shows, family and its members are the main deciders in a financing decision-making process. Often, long before a decision-making process takes place, the family comes to an aligned agreement, of how their business has to pursue their desired long-term strategy and which values and goals are thereby important. Previous research states that family members are significantly influenced by concepts of socioemotional wealth (Gomez-Mejia et al., 2007) and a rather long-term orientation (Lumpkin & Brigham, 2011) while developing such a strategy. With our findings, we point out that many different motivations drive family members, which is why it is shortsighted to assume that family members are automatically driven or mainly influenced by non-financial goals. But not only their goals might be influenced by values and norms of a family, all actors in a process have further their own, sometimes contrary rationalities upon which they act (Hall, 2002). Hence, generalization about finance decisions, as the assumption for example that each family company is in a certain way driven by family values, is falling short of the mark. Lastly, we could assume that more family involvement in family firms would lead to a stronger focus on family goals, as the concept of socioemotional wealth describes (Gomez-Mejia et al., 2007). The findings of our study are however counterintuitive to this assumption. We see that a higher level of family involvement in our case companies does not lead to following only family-oriented goals. As expert interview 3 also concludes, it is in the end a question of *how* family values are lived in a company rather than the fact of how many family members are involved that influence eventually decision-making. This provides further impetus to study how certain values drive the process of financing, highlighting the heterogeneity of family firms (Sharma et al., 2014).

As we introduced before, it is generally assumed that family firms follow a strict pecking order, which means that they prefer internal financing strongly (for example see Sirmon & Hitt, 2003; Zhang et al., 2012). However, we do not find evidence to this research result in our case studies. Family firms make conscious decisions for an external finance strategy, since internal financing limits their growing opportunities or is simply uneconomic. It becomes apparent that internal financing purposes are not even considered as a relevant finance instrument anymore. We see in our findings rather a confirmation of the theories of Kotlar and colleagues (2014) who state that family firms do not only follow non-financial goals but make decisions that will allow them to keep their business in the future. According to this, in our cases the family firms are willing to give up control to external financiers if it is beneficial for the longevity of the firm. Family companies might tend to avoid new equity providers, but related to the amount of the investment, they evaluate a whole range of different capital finance instruments. It is trust to the finance partner which plays a more important role in selecting the way of financing, as we explain later. Referring back to the decision process itself, family members rather tend to make fundamental decisions in an inner family circle, but engage in the following the whole workforce to execute a made decision. Surprisingly, we find those practices in all sizes of companies. Thus, a family acts as a gatekeeper, since it decides whether an idea or proposal will be examined further or not. To summarize it in one sentence:

*Family members are the initiators or gatekeepers of financing decisions, but leave often the execution to non-family members, which provides the opportunity to include more diversified perspectives.*

## 9.2 Usage of Practices in Arenas

As there are family arenas to which non-family members do not have access, it is important that there are also sufficient business arenas for the non-family managers to contribute in. We point out that the alternation between formal and informal arenas is most important in order to find a balance between the ‘conformity’ requested in formal arenas and ‘friction’, which is tolerated and desired in informal arenas. It is necessary that different arenas can be used for strategizing since some practices can only flourish in certain arenas as explained before. Non-family managers benefit from the existence of different arenas as it allows them to engage more actively in some of them, especially when dominant family members are absent. Therefore, it is important that arenas exist where discussions and disagreements are tolerated and even desired.

The existence of informal arenas is important not only for the ‘friction’ in a decision process but also for flexibility. In expert interview 2 about a financing process after a fire, we see that urgency can highly influence the decision-making. In such a case, flexibility and short decision paths are necessary in order to maintain business operations. Both family and non-family members can avoid formal arenas and only meet in informal arenas to advance the process. This can significantly increase the speed of decision-making as informal arenas provide much more flexibility when urgency is required. Again, expert interview 2 illustrates clearly that without informal arenas the whole business would have been under a serious threat. Nordqvist (2012) concludes as well that in family firms formal arenas play a rather less important role. In order to be able to use only informal arenas, a high level of trust is required which is explained in the next chapter of the discussion.

As we point out before, diverse opinions can lead to a better decision-making. It is beneficial that non-family managers can contribute with their ideas to better outcomes for the family firms. However, they have to be aware that family firms pursue profit and longevity simultaneously, which might lead to different priorities (Gomez-Mejia et al., 2007). Concentrating too much power in the hands of family managers can reduce the diversity of opinions and points of views in setting strategy (Patel & Cooper, 2014). Diverse opinions and task-related conflicts can ultimately lead to better outcomes for the company (McKee et al., 2014; Olson et al., 2007). Therefore, it is essential to involve non-family managers in a meaningful way in the strategy decision-making process. As Patel and Cooper (2014) highlight, this will eventually result in an overall better performance of the family firm. Simmelian strangers are particularly able to alternate between different arenas (Nordqvist, 2012) but we also see that other non-family managers can do this to some extent in the financial decision-making process. Depending on the arena, different practices apply which can allow advancing the decision-making process through different ways. It is particularly essential to have access to arenas where dominant micro-practices do not prevail in order for everyone to contribute.

Sometimes practitioners also actively select the appropriate arena where they can take advantage of certain micro-practices. Even though the goals of such a meeting are more in line with formal arenas, they try to present an arena as informal as it allows them to apply certain micro-practices that they could not have used in formal arenas. This shows how managers are unconsciously aware of the norms and practices connected to the different kinds of arenas. To conclude in one sentence:

*Different arenas are necessary in family firms so that everyone in the company has the possibility to participate actively and meaningfully in a decision-making process.*

## 9.3 Trust as Door-Opener to Arenas

The first two sections of our discussion illustrate clearly that trust plays a crucial success factor within the whole financing decision process. Trust is the key for actors to enter arenas, which for example non-family managers need to enable discussions with colleagues. As shown, managers who do not belong to the family have first to build trust in a company to obtain a hearing from the family. However, this is a long-term process which can be actively influenced through openness, integration and engagement but also requires the awareness and acceptance that values, common practices and routines of a family firm can hardly be changed. This awareness implies as well that non-family managers can never enter some arenas such as family outings, even if they are highly trusted from the family; some family matters stay in the family and are only discussed in the

family (Brundin & Wigren, 2012). We show that this trust-building process starts surprisingly earlier than expected. Oftentimes new employees are already known by the family for many years as they have worked as former bankers, advisers or consultants for a family firm. Hence, they were able to start a trust-building relationship a long-time ago and can engage in a long-term relationship, which is based on loyalty, track record and mutual understanding.

The case companies and especially expert interview 1 show that trust is even more important for external advisors who are pitching for a consulting contract in a decision-making process. This is in line with a review of Strike (2012), who states that especially trustworthiness and trust are besides reputation and previous experience the most important factors for business advisors to successfully cooperate with family businesses. Many advisors first build a trustful relationship through events over a long-term period, only to hope that these efforts will pay off in the future, when they receive their first consulting contract from the family. Companies benefit in the sense that mutual trust and more informal and shorter communication channels lead to less agency and negotiation costs, which recall the findings of Dawson (2011). This effect even can be strengthened, when more family members are involved in the external communication with banks or advisors (R. C. Anderson et al., 2003). To sum it up:

*Especially for non-family managers and external actors, trust is a key which opens doors to more arenas where they can influence financing decisions, but for some doors only family members have a key in their pocket.*

## 10. Conclusion

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*In this section, we summarize our main insights from our analysis and discussion and demonstrate how we answer our research questions and hence fulfill our purpose. Moreover, we present how our study contributes both to theory development and practical implications. We conclude our study by pointing out the limitations of our thesis and recommending directions for further research.*

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Our insights were developed from the data collected in our case studies. We interviewed actors who participate in financing decision processes and are either family members, non-family members or external actors. This allows us to capture the process from many different perspectives. For answering our *second research question* of which actors play a role in the process, we show that family members, non-family members and external actors are all involved and play significant roles. By investigating their actions, we can answer our *third research question* about where and how the actors interact. We use SAP to identify micro-practices that guide the actions of individuals. We further see that there are six different kinds of arenas that can be used in the decision-making process. The alternation between the business formal and informal arenas in particular is beneficial for the decision process.

This can be traced back to the meso-practices prevailing in these arenas. Our findings point out that ‘conformity’ is required in formal arenas while informal arenas are used for discussing openly as well as dissenting. In these informal arenas ‘friction’ is allowed. As different opinions can lead to better decisions, we show that the presence of informal arenas in family businesses can improve the decision-making process and introduce flexibility to the process. This also answers our *first research question* how the financial decision-making process evolves. Contrary to our initial thinking, the decision-making processes are far from linear but are instead characterized by a circle of alternation between formal and informal arenas. This is graphically presented in the Family Business Cycle of Decision-Making (chapter 8.4). The process starts oftentimes much earlier than the consideration of the actual financial decision begins. We see that the family plays an essential role and can thus influence the process indirectly but still significantly with its values and preferences in addition to the direct involvement. Relationships with external actors usually develop over a longer period of time and through numerous interactions. For nurturing relationships, trust is highly important, particularly for engaging in informal arenas. Therefore, these interactions also set the direction of the financial decision-making process in advance. Thus, we see that the process we studied is highly complex. This demonstrates why the mainly quantitative research in finance, which focuses mostly on the input factors and outcomes of the financial process, falls short of explaining how decisions come into being. Our initial assumption that it is worth to investigate processes in order to shed light on what is actually happening in companies (Beattie et al., 2006), turned into a new and relevant study.

### 10.1 Theoretical and Practical Contribution

Our study advances both the theoretical knowledge about financing decisions in family firms as well as provides insights into family firm practitioners.

Firstly, we advance Nordqvist’s model of strategic arenas (2012) by adding an external dimension, thus incorporating the interaction that happens outside of the business. This allows a better grasp of where and how external actors such as consultants influence strategic decision-making processes. Moreover, in line with SAP we show how arenas can actually represent practices in organizations. Secondly, we add to the understanding of financing processes in family firms. We show how arenas and practices that exist in family firms influence the process of decision-making. Our study contributes to financing literature in the field of family firms by focusing on the micro-activities (Chrisman et al., 2005) and processes (Astrachan, 2010) that occur in family businesses. We show how the existence of arenas and practices changes the decision process and incorporation of different points of views. Thirdly, by applying the SAP perspective in a family business context we also advance the theoretical understanding of this combination. As we explore the financing decision-making process with this combination, our study adds a new dimension to the research of SAP in family businesses. We namely advance the new research into the spatial dimensions of strategizing (Hydle, 2015) by applying the concept of strategic arenas

(Nordqvist, 2012) in the decision-making process. By doing this, we go beyond Whittington's (2006) framework of praxis, practice, and practitioner by focusing on where these practice moments actually occur. Furthermore, we transfer the classification of micro- and meso-praxis by Jarzabkowski and Spee (2009) to the context of practices and introduce micro- and meso-practices. This additional classification broadens our understanding of real-life strategical decisions.

From a practical perspective we provide practitioners with a better understanding of the financing process in family businesses. By demonstrating the importance of informal arenas for influencing decision-making and how trust can open doors to participate in these arenas, we support non-family managers and external actors with awareness of how they can approach the financing process in family firms. Not only managers can apply this knowledge, but also family firms themselves can improve the decision-making process by creating or accepting particularly informal arenas. Family members can also use our insights to better understand their role in the process and learn how they can influence financial decisions. This can help to create more room for discussion and hence improve decision processes. We further support external advisors with our research by stating that firstly building trust and a close relationship is most important in a successful cooperation and secondly that external managers have to be aware how to address certain topics in order to achieve impact. Building trust and a close relationship often starts a long time before a decision-making process takes place. Hence, external advisors should be aware that engaging with family firms is a long-term commitment.

## 10.2 Limitations and Further Research

Naturally, our research has some limitations that have to be considered, but which also generate directions for future research opportunities. Thus, in this section, first we state limitations which can be regarded at the same time as foundation for further explorations and second we outline further research suggestions.

The main limitation of this research is the cross-sectional, retrospective study design. We conducted all case interviews after the companies already finished their decision-making processes. Therefore, interviewees knew the outcome of the process at the time of the interview and might be biased from this. Our respondents could tend to under- or overestimate some critical periods of the process or the description of the process itself as they are influenced by the evaluation of the outcome. Further, as we interview several practitioners within each case company, they could have agreed on critical meetings or tensions, which they intentionally excluded from the interviews. Another consequence of our cross-sectional study design is that we can also not derive insights referring to the 'praxis' angle of SAP (Whittington, 2006), which would have shed light on another perspective to the researched processes.

Lastly, we interviewed very successful and profitable companies. We believe that their success can highly influence the access to capital. This might affect the decision-making processes of our case companies. In expert interview 2 we see how external factors such as urgency can change the decision-making process. Thus, in further case studies it would be beneficial to research how less successful companies or family firms that face challenges design the financial decision-making process.

To address and overcome the stated limitations, future studies should execute a longitudinal study in order to have the possibility to explore a finance decision-making process from the very beginning to the final decision. This would also allow the inclusion of more techniques such as shadowing as well as enabling the possibility to study human actors and their interactions within a strategic process as Brundin & Melin (2012) claim. According to the researchers, this is an important factor in the research of strategic processes. Furthermore, the concept of rationalities as presented by Hall (2002) can be also integrated to further investigate the motives of practitioners and how their different rationalities influence a decision-making process.

In a broader context, more family firms could be included which operate in a different industry sector and have thus other requirements of financing. Moreover, quantitative studies can be beneficial for proving whether some findings are generalizable and hence universal within family companies. Additionally, further research should expand the focus from micro and meso-

practices to the macro-practices as introduced by Jarzabkowski and Spee (2009) for praxis episodes. This new direction could investigate the effect of norms and routines to the whole industry sector. Since our study focusses on companies in Germany, studies in different countries could add new insights, especially within the concept of rationalities, which might differ in a country-specific context (Hall, 2002).

Concluding, we believe that our research opens the black box of financing decision-making and lays the foundation for exploring further an interesting and emergent topic in family business research.



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# Appendix

## Appendix 1 – Interview Guideline Family Members


### Warm Up Questions

1. Can you please tell us a bit about yourself and your position in this company?
2. What is the financing decision that you want to share with us today? Could you please give us some insights about the context of this financing decision?

### Specific Questions

3. Please describe the process of taking this decision in detail: which particular steps did you take?

Repeat for each  
specific step of  
the process

- 
4. So, for this step where and whom did you meet, how did you interact? Please share as much detail about this event as possible with us.
  5. Please tell us more about the specific actions of each individual.
  6. Why do you think this event/interaction occurred as it did?

7. In overall, how would you describe your role in this process?
8. Were there any steps in this process where you were not involved?
9. What do you think went well in this process, what could be improved?
10. Have you experienced other financing decision-making processes as different? Why? How?

## Appendix 2 – Interview Guideline Non-Family Members

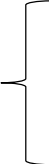
### Warm Up Questions

1. Can you please tell us a bit about yourself and your position in this company?
2. How would you describe your relationship with members of the owner family?
3. What does it mean to you that you are a non-family manager working in a family business?
4. What is the financing decision that you want to share with us today? Could you please give us some insights about the context of this financing decision?

### Specific Questions

5. Please describe the process of taking this decision in detail: which particular steps did you take?

Repeat for each  
specific step of  
the process

- 
6. So, for this step where and whom did you meet, how did you interact? Please share as much detail about this event as possible with us.
  7. Please tell us more about the specific actions of each individual.
  8. Why do you think this event/interaction occurred as it did?

9. In overall, how would you describe your role in this process?
10. How would you describe your level of involvement in the process? Do you feel that you contributed as much as you wanted?
11. Were there any steps in this process where you were not involved?
12. What do you think went well in this process, what could be improved?
13. Have you experienced other financing decision-making processes as different? Why? How?

## Appendix 3 – Interview Guideline External Actors

### Warm Up Questions

1. Can you please tell us a bit about yourself and your position?
2. Which role do you play in the decision-making process of family firms? Why are you involved?
3. What do you think makes family firms so special? What do you pay attention to in your collaboration?
4. How would you describe your relationship with members of the owner family? And with non-family members?
5. How do you approach a new family firm? How do you differentiate yourself from competitors?

### Specific Questions

6. Please describe the process of taking this decision in detail: which particular steps did you take?
7. So, for this step where and whom did you meet, how did you interact? Please share as much detail about this event as possible with us.
8. Please tell us more about the specific actions of each individual.
9. Why do you think this event/interaction occurred as it did?
10. How would you describe your role and your level of involvement in the process? Do you feel that you contributed as much as you wanted?
11. Were there any steps in this process where you were not involved?
12. What do you think went well in this process, what could be improved?
13. Have you experienced other financing decision-making processes as different? Why? How?

Repeat for each  
specific step of  
the process

