Botero, Isabel C.; Fediuk, Tomasz A.

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Chapter 4

A Receiver Approach to Governance in Family Firms: The Role of Justice Perceptions

Isabel C. Botero[a] *and Tomasz A. Fediuk*[b]

[a]*University of Louisville – Generation6 Family Enterprise Advising –, Louisville/Kentucky, USA*
[b]*Family Business Strong, Louisville/Kentucky, USA*

Abstract

Justice perceptions describe an individual's evaluation of whether decisions or actions are fair or unfair. These perceptions are important because they affect individual attitudes and behaviors in different situations. Family firms develop and implement governance policies and structures (i.e., governance systems) to diminish the problems that can arise from the overlap between the business, the family, and the ownership systems of a firm. Governance systems help family firms have a clear structure of accountability and a clear understanding of the rights and responsibilities that family and non-family members have toward the family enterprise. Research on governance to date has focused on the practices and policies that exist and their effects on the family firm. However, in the governance context, individual perceptions are important because they are likely to affect the attitudes that family and other members have toward the family enterprise and the likelihood that they will follow the different policies when they are implemented. This chapter takes a receiver perspective to explain how individuals create justice perceptions based on governance mechanisms and the effects of these perceptions. The goal is to

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understand how we can use this information when developing governance practices in family firms.

Keywords: Family firms; governance mechanisms; receiver perspective; justice perceptions; policy implementation; fairness perception

4.1. Intoduction

Family businesses[1] are the most dominant form of business around the world (Colli, 2003). These firms have an important role in the world economy through their contributions to each country's GDP and the number of people that they employ (FBN, 2008; Mandl, 2008). One of the characteristics that make family businesses unique is the interaction between family, business, and ownership subsystems (Tagiuri & Davis, 1992). These interactions can bring both positive and negative outcomes for family firms. On the positive side, family firms are associated with better performance, greater employee retention, more attentiveness to social responsibility, and more responsiveness to the environment (Anderson & Reeb, 2003; Berrone et al., 2010; Dyer & Whetten, 2006; Stavrou et al., 2007). On the negative side, family firms are often associated with nepotism, preferences for family members, and an increased probability of conflict, particularly between family members (Miller & Le-Breton Miller, 2003).

Continuity and viability across generations are two important challenges that family businesses face (Gersick et al., 1997). Researchers argue that one of the reasons continuity and business viability can be challenging is the conflict that emerges when family and business mix (Pieper et al., 2013). Family and business have different logics and norms that can affect the interactions between these two systems (Davis, 1983; Ward, 1997), and the expectations that individuals develop regarding what is fair and what is not (Barnett & Kellermanns, 2006; Botero et al., 2015). Families are guided by egalitarian logic in which all members should be treated equally independent of their capabilities (Davis, 1983). On the other hand, businesses are guided by meritocracy logic (Davis, 1983). Meritocracy suggests that those who show greater capabilities, effort, and work should be rewarded, and those who do less and are not as capable should be removed from the system. When these two logics contradict, they are likely to result in conflict that affects both family (i.e., family dynamics) and business performance (Eddleston & Kellermanns, 2007; Kellermanns & Eddleston, 2004; Olson et al., 2003). These conflicts can lead to situations that prevent the continuity of the family business or its viability for future generations.

There are multiple ways to prevent and manage harmful conflict in family firms. However, scholars and practitioners agree that the development and implementation of governance policies and practices can help families in clarifying

[1]This chapter uses the terms family firm, family business, and family enterprise interchangeably.

the relationship between the family, the business, and the ownership system to prevent harmful conflict from occurring (Aronoff et al., 1998; Gallo & Tomaselli, 2006; Ward, 2000). This has sparked an interest in further understanding of corporate and family governance. Up to date, corporate governance is the most studied topic within the family business literature (De Massis et al., 2012; Debicki et al., 2009). The focus of this research has been on exploring the different types of policies and practices that are available, the implementation of these practices in the family business context, and the effects that governance policies and structures can have on the family and the business (Gersick & Feliu, 2014). Although there is less research on family governance, the focus in this area has been on understanding the different approaches that families use as part of their governance efforts (Binz Astrachan & Botero, 2021). One aspect that has received less interest is how policies and practices within the broader family business governance system (i.e., the combination of governance mechanisms available to the family, business, and ownership systems) are received and perceived by family and organizational members. Perceptions about the fairness of governance policies and practices are important because they can affect the behaviors of family and organizational members, and how likely they are to use and follow these practices (Botero et al., 2015).

This chapter takes a recipient approach to understanding family business governance. Using equity theory (Adams, 1963), psychological contracts (Rousseau, 1995; Rousseau & Tijoriwala, 1998), and organizational justice (Greenberg, 1990; Greenberg & Colquitt, 2005) as guiding frameworks, this chapter explains how and why perceptions of the users and recipients of governance structures and policies need to be actively considered in the development and implementation of governance practices and policies. This chapter is structured to first review the literature on corporate governance in family firms and explains how the perceptions of recipients have been included in this work. This is followed by an explanation of what a receiver approach perspective is, how individuals assess their justice perceptions of a situation, and why these processes need to be considered in the governance context. To finalize, the receiver perspective is applied in the context of family firms, and areas for future research are identified and discussed.

4.2. Family Business Governance

In the broadest sense, corporate governance describes the structures, processes, and policies organizations use to manage, direct, and control people, resources, and the interests of those involved in a firm (Aguilera & Jackson, 2010). In the context of family firms, understanding the governance is important because of the link it has to the success and sustainability of family businesses (Miller & Le Breton-Miller, 2006; Steier et al., 2015; Suess, 2014). Family involvement in a firm introduces important considerations and complexities to our understanding of corporate governance (Cadbury, 2000; Pieper, 2003). For example, the inclusion of the family in the business system requires the creation of structures, policies, and processes that enable parallel thinking to support, integrate, and balance the interests of the family, the business, and its owners (Carlock & Ward, 2001). Thus, research suggests that the corporate governance of family firms needs to include structures, processes, and policies that describe how elements from the family, the ownership, and the business systems interact with each other (Pieper, 2003). In the *business* system, corporate governance mechanisms help outline what managers need to do to help the organization achieve its goals (Gersick & Feliu, 2014). In the *ownership* system, governance structures are designed to help maintain equity for the owners by establishing structures and procedures that will help with the legal and accounting requirements, setting risk and return parameters, and tracking all data on performance to ensure that owners maintain their equity in the firm (Gersick & Feliu, 2014). Finally, in the *family* system, the governance structures and procedures help the family organize and manage the relationships between one another, between the family and business (Berent-Braun & Uhlaner, 2012), family and ownership (Montemerlo & Ward, 2011), and family and management (Mustakallio et al., 2002). The purpose of governance structures and procedures in the family system is to explicitly articulate and clearly outline the rewards and demands that are linked to being part of the family business, to clearly identify the opportunities for family members when involved in the business, and to ease the flow of information that is trustworthy between family members (Gersick & Feliu, 2014).

Historically, the study of family business governance began with a focus on the individual governance bodies and structures available to family businesses. Initially, the emphasis was on understanding the boards of directors and their composition (Pieper, 2003). A result of this initial work was the emphasis on the need for independent board members in family business boards to better recognize opportunities and pitfalls for the business and the family. Following this, the focus shifted to the professionalization of boards, the functions of boards, and their effectiveness (Pieper, 2003). However, the focus on boards exclusively became one of the main critiques of research on governance (Pieper, 2003). Thus, scholars decided to explore other forms of governance in family firms, and the relationship between governance and performance (Pieper, 2003). Later research focused on the exploration of governance in the family system (Suess, 2014), how the presence of family governance structures affects the performance of the firm (Berent-Braun & Uhlaner, 2012), and how it can affect decision-making about the business (Mustakallio et al., 2002). More recently, researchers have begun to explore governance systems used by family firms based on industry contexts, family business characteristics, and the importance of stakeholders (Steier et al., 2015).

When combined, the research on family business governance up to date has focused on understanding three general aspects of governance: (1) What are the structures and policies that family businesses can use? (2) What are the characteristics of these structures and policies? And (3) how do these structures affect performance and the family? Answers to these questions provide an important baseline to understand what are the different governance tools available for family businesses and why these tools are important. However, this research has not provided a good understanding of how members of the family, business, and ownership system evaluate these tools, and the impact that they have on the continuity of the family firm. To us, this is problematic because it fails to acknowledge the role that users of policies and structures have in understanding the governance of family firms. That is, if we continue to study and practice the governance of family firms as we do today, we are assuming that the success of governance structures and policies are primarily linked to the choice of practice by a family firm (i.e., the identification and implementation of structures and policies) and not by how that practice may be perceived and evaluated by the users. In this chapter, we argue that we need to consider both sides (i.e., sender/decision-maker and receiver/user) to better understand family business governance.

This project introduces what we call the receiver approach to governance. This approach focuses on understanding governance from the family member, business member, and owner's point of view. Our focus is on understanding what do we need to take into consideration when developing and implementing governance structures and policies in the context of family firms. The argument that we advance is that to further our knowledge about family firm governance, we benefit from taking a receiver perspective to understand how individuals are likely to capture and process information about governance decisions (i.e., how do individuals assess justice perceptions of a situation). The following sections define and explain the receiver approach and introduce it within the context of family business governance.

4.3. A Receiver Perspective on Governance in Family Firms

In their work on family protocols, Botero et al. (2015) argue that it is important to consider a receiver perspective when developing family protocols. As a governance policy, one of the primary roles of a protocol is to help formalize the expectations and norms that family members have about the relationship between the family and the business systems. These authors indicate that harmful conflicts between family members are likely to occur due to

> unmet expectations regarding the distribution of resources between family members (e.g., profits and dividends), the different roles that family members can take in the firm and the requirements for those roles, or the benefits and responsibilities that come with ownership in the firm. (p. 219)

Thus, protocols help because they unify the expectations for family members. Implied in this work is the idea that the presence of a governance practice or structure by itself will not diminish the conflict that can occur in the family firm. For a governance practice or structure to help the family firm, it needs to anticipate the information that users are looking for and how they are likely to use and interpret that information to assess their justice perceptions. When individuals perceive unfairness because of a governance practice, they are likely to react against the organization and are less likely to acknowledge the policies and structures in place (Botero et al., 2015). Therefore, the recipient also plays an important role in the governance processes within family firms.

From our point of view, the receiver perspective on governance considers how individuals assess justice in the context of family firms. This understanding then helps to develop and implement governance structures that articulate the expectations and norms that family and non-family members have regarding their responsibilities toward the family business and the rewards that they can obtain from their membership and participation. Taking a receiver approach helps identify how individuals compare themselves to others, who they compare themselves to, what type of information they look for, how individuals use this information when evaluating the fairness of a system, and why they do this in the context of family firms. We argue that understanding the characteristics of those who use governance structures and policies should play an important role in the development and implementation of governance mechanisms and their potential success. From our point of view, governance involves interactions between two parties (i.e., a sender and a receiver) who may have different goals and expectations that need to be considered. Thus, to have a comprehensive understanding of governance, scholars and practitioners benefit from understanding both perspectives. Governance research in family firms up to now has primarily focused on the sender perspective (i.e., what should family businesses do regarding governance and why), providing a one-sided view of this area. To move forward in our understanding of governance, we need to incorporate a receiver approach to have a holistic understanding of the governance process.

Three frameworks help us understand how and why the psychologies of individuals matter in governance situations: Psychological contracts, equity theory, and organizational justice. *Psychological contract* is a term used to describe an individual's belief about the obligations that they have negotiated with another party (Rousseau, 1995; Rousseau & Tijoriwala, 1998). These beliefs are based on "the perception that a promise has been made and a consideration offered in exchange for it, binding the parties to some reciprocal obligation" (p. 679; Rousseau & Tijoriwala, 1998). In general, this area of research indicates that, in organizational contexts, individuals are likely to develop an unwritten contract with the people they interact with and with the organization in general. This contract is based on expectations and determines how a person evaluates the actions of the organization and organizational representatives.

Psychological contract has been primarily used to understand employment relations (Zhao et al., 2007). This view suggests that in any employment relationship, individuals develop certain expectations about the behavior of the organization based on the psychological contract that they have. These expectations can be met or violated according to the organization or individual's behaviors or actions. In instances where expectations are met, the behavior of the organization/individual matches what the other party is waiting for as part of their exchange relationship. Violations of expectations can either be positive or negative. Positive violations describe situations in which an organization goes above and beyond the perceived psychological contract held by the stakeholder. In instances where expectations are met or positively violated, supportive behavior is likely to result. However, not all individuals view incidents from the same point of view and what some view in a positive way may be the same issue that others view in a negative way. Negative violations, on the other hand, describe situations in which the behavior of the organization/individual contradicts, in a negative way, what they expected. These negative perceptions can act as the trigger for behaviors.

When applied to the governance context, a psychological contract represents the expectations that family members, owners, and business members develop based on the role they play in the family enterprise. Psychological contracts are unwritten. Thus, family members, organizational members, and owners will hold others accountable (i.e., family business decision-makers) based on their expectations regarding how the other party should behave, or what they believe was promised to them. The violation of these expectations will affect the future behaviors of the individual in the firm. Therefore, an important contribution of the psychological contract framework to the receiver perspective is that it highlights that within organizational contexts (i.e., family firms) individuals create unwritten expectations regarding what the organization or their representatives have "promised them." Even though these expectations may not be aligned between the parties, they affect individual behavior.

A second framework that is useful is *equity theory*. This theory suggests that, in social situations, individuals are likely to compare their actions to those of others to determine the fairness of their outcomes (Adams, 1963). In any interaction, an individual will assess the outcomes they obtain by engaging in two comparisons. First, they will compare the outcome they obtain based on their level of inputs. This comparison will set expectations for the person regarding what others around them should be receiving for the work that they do. The second comparison involves assessing what outcomes other people around the individual obtained based on their level of input. These two assessments help the individual determine whether the outcomes given to them are equitable/fair or not and help set the expectations for future relationships. When individuals perceive inequity in their outcomes, they are likely to experience cognitive dissonance (i.e., a mental discomfort felt when there are contradictory thoughts; Festinger, 1962). Because of this dissonance, a person who perceives inequity will feel tension that is related to the magnitude of the inequity felt, and they will try to reduce this tension through a change in their behavior (Adams, 1963).

Although, in the organizational literature, equity theory has been primarily used to explain employee motivation, it can also be useful to understand the receiver perspective to governance in family firms. Equity theory emphasizes the comparative nature of individual actions. Thus, when organizations develop and implement mechanisms to manage, direct, and control their resources, individuals will compare how these mechanisms are being used to regulate their actions and those of others. To obtain buy in from an individual, organizations need to develop and implement governance structures and policies that will be perceived as fair by organizational and family members (i.e., that is being used the same way across all members based on their level of input). In this sense, equity theory provides three important pieces of information that can be used to understand the governance context: (1) individuals constantly compare their actions and outcomes with those of others; (2) individuals select who they compare themselves to, and (3) when individuals perceived inequity, they are likely to modify their behavior.

A third framework that can help us understand the recipient approach to governance is organizational justice. *Organizational justice* is an extension of equity theory and explains how individuals react after they perceive an inequity has occurred. The organizational justice literature focuses on understanding fairness in the workplace (Colquitt et al., 2001; Folger & Cropanzano, 1998; Greenberg, 1990; Greenberg & Colquitt, 2005). In the context of family firms, organizational justice has been used to explain how family members can develop fair processes in the treatment of family, business, and ownership relationships (Barnett & Kellermanns, 2006; Van der Heyden et al., 2005). In the context of governance, organizational justice has been applied to explain how agency theory can be used to understand governance in family firms (Lubatkin et al., 2007). There are three forms of justice that are relevant (Colquitt et al., 2001). *Distributive justice* refers to perceptions of fairness that are tied to the distribution of resources (Adams, 1963; Colquitt et al., 2005). *Procedural justice* reflects the fairness of the decision-making procedures that lead to outcomes (Colquitt et al., 2005; Thibaut & Walker, 1975). *Interactional justice* describes the perceptions that individuals have about the nature of the interpersonal treatment received from others (Bies & Moag, 1986; Greenberg, 1993). Interactional justice can be broken down to interpersonal and informational forms of justice (Colquitt et al., 2001; Greenberg, 1990; 1993). Interpersonal justice describes the degree to which people are treated with respect and dignity while informational justice refers to perceptions of fairness about explanations provided to people that convey information about why procedures or outcomes occurred (Colquitt et al., 2005).

Taken together, this framework suggests that individuals evaluate the distribution of outcomes, the procedures used to come up with these outcomes, and the quality of interactions with those making decisions to determine whether they have been treated fairly or not. These assessments are based on the expectations that individuals have regarding the inputs and outputs of the situation for them and for other parties. Perceptions of unfairness emerge when individuals believe that other people are receiving greater benefits from smaller inputs. Unfairness motivates individuals to try to restore their feelings of fairness by changing their inputs or fighting for more benefits. Applied to the receiver perspective, the organizational justice framework helps us understand which factors individuals evaluate to determine fairness in organizations, and how they are likely to react when they perceive unfair treatment.

The combination of these three frameworks provides relevant information to understand how receivers form impressions about justice within family firms. In the governance context, perceptions of justice are relevant given how they can affect and enhance the presence of conflict in the family and the business (Barnett & Kellermanns, 2006). Given that governance mechanisms are one of the ways to diminish and manage the negative conflict that can emerge from the interaction of the family and the business, we argue that understanding how justice perceptions are created in family firms can provide a guideline of how to design and implement governance structures and policies within the family firm. The following section presents a cognitive model to understanding the process individuals are likely to follow when assessing justice within the family firm.

4.4. Individual's Cognitive Model for Assessment of Justice in Family Firms

Taking a receiver's approach to governance implies an understanding of the cognitive processes that individuals go through to assess the fairness of situations. To assess the fairness of a situation, individuals go through several steps. This process occurs very fast in the mind of individuals, which makes it difficult to identify the precise moment where one step begins and the other ends. In this chapter, we present the process as having separate and identifiable steps. However, it should be noted that in application it might not be as clear-cut as presented here. As indicated in Fig. 4.1, we begin the discussion of justice assessment by presenting the individual's prevalent logic as the point of departure.

In family firms, there are two logics that are prevalent in the context: (1) egalitarianism from the family system and (2) meritocracy from the business systems (Davis, 1983; Pieper et al., 2013). Consistent with these ideas, we suggest that, when assessing justice perceptions in family business contexts, individuals are likely to subscribe to these two logics as the starting point for analyzing a situation. An egalitarian logic views individuals as having equal rights, status, and opportunities. It emphasizes the treatment of all individuals in the same way independent of their effort and capabilities. An example of this would be the belief that parents will not have preferential treatment when interacting or providing opportunities to their children. Thus, an egalitarian logic suggests that parents will treat all their children the same way, independent of the characteristics of each child or what the child has done to them (either positive or negative). Individuals who use an egalitarian logic in the family business will compare themselves to others and assume that they should receive the same outcome (e.g., rewards, opportunities, salary) independent of their qualifications or quality of their outputs. As mentioned earlier, equity theory suggests that individuals tend to compare themselves to others and rely on the assessment of their inputs and outputs to compare them against the inputs and outputs of relevant others. Therefore, individuals who use

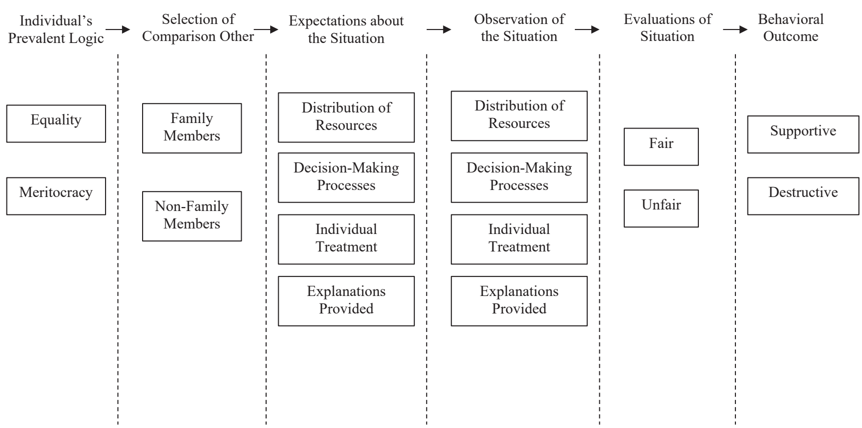

Fig. 4.1. Individual Cognitive Model for Assessing Justice in Family Firms.

egalitarianism as their prevalent logic are likely to compare themselves to others by assuming that all outputs obtained by individuals should be the same independent of the inputs that they provide to the system. In the context of family firms, family members are more likely to use this logic when comparing themselves to other family members given that this is the prevalent logic in the family.

Meritocracy logic, on the other hand, assumes that individuals are chosen and move ahead in a system based on their talent, abilities, and achievements. This logic is prevalent in the organizational context where individuals get hired, rewarded, and promoted primarily based on their abilities. When comparing themselves to others, individuals using this logic evaluate and compare the inputs and outputs of themselves and others such that the ones who obtain better outputs should be the ones with the best inputs. In the context of family firms, individuals who use this logic assume that when they provide greater inputs that can help the family business, they will obtain better rewards when compared to those who did not provide as much input and benefit to the firm. Within the context of family firms, this logic is more likely to be used by non-family members.

An individual's prevalent logic helps determine which comparison others they find more relevant to analyze a situation. The selection of a comparison other is important because it will activate individual expectations, identify what information the person will perceive as relevant for a situation, and help frame the information gathered. Individuals can select a family or a non-family member as their comparison other. The selection of either of these will activate the expectations that they will have about the situation that they are assessing. Building on the organizational justice framework presented above, there are four areas in which expectations are relevant when assessing perceptions of justice. The first set of expectations is related to the beliefs regarding what resources they should obtain based on their contributions to the system (i.e., distribution of resources). The second set of expectations focus on the decision-making followed to make choices about the distribution of resources. The third set of expectations focus on how individuals expect to be treated in a specific situation. The fourth set of expectations revolves around the explanation that is provided for why procedures or outcomes occur.

To assess whether a situation is fair or unfair, individuals compare their expectations with observed results and actions. This comparison will result in the assessment that indicates a violation of expectations or indicates the meeting or exceeding expectations. Individuals who perceive that their expectations are met or exceeded will assess the situation as fair and are likely to be supportive in their actions toward the organization. On the other hand, individuals who perceive that their expectations have been violated will go through additional processing to determine why their expectations were violated. This additional evaluation process is like the one followed by individuals who perceive there has been a violation of their psychological contract.

Research on psychological contracts suggests that contract violations range from a subtle misperception on the part of the exchange partners to stark breaches of perceived contract terms (Rousseau, 1995). In the strictest sense, a violation is a failure to comply with the terms of the contract, but given the nature of the psychological contracts, individual interpretations for the circumstances of failure determine whether they experience a violation (Rousseau, 1995). Contract violations can be assessed on two factors: willingness and ability to hold to the terms of a contract (Rousseau, 1995). Willingness refers to perceptions of whether the other party involved in the contract is willing to live up to the terms of the negotiated contract. Ability, on the other hand, refers to whether the other party is able to hold to the terms of the negotiated contract. External factors can sometimes prevent or alter the possibility of the other to hold to the terms of the contract. Thus, interpretations of violations are in the eye of the beholder. This means that parties can interpret a violation as an inability or an unwillingness of the other party to fulfill their part (Rousseau, 1995). This interpretation is important for understanding how violations are experienced and how individuals respond to them (Bies & Moag, 1986; Bies & Tripp, 1996). Contract violations begin with the perception of a discrepancy between the expected and actual outcome, but not all discrepancies are noticed and not all that are noticed are perceived as violations (Rousseau, 1995).

Contract violations can be of three forms according to the combination of the willingness and ability dimensions: inadvertent violations, disruptions, and reneging (Rousseau, 1995). An *inadvertent* violation occurs when "both parties are able and willing to keep their bargain, but divergent interpretations lead one party to act in a manner at odds with the understanding and interests of the other party" (Rousseau, 1995, p. 112). Any contract can have some inadvertent violations, and the parties involved will often accommodate for these small violations (Rousseau, 1995). An inadvertent violation may also occur if one party was not aware of the expectation by the other party. The actor did not willingly violate any contract. But lack of awareness kept the actor from holding to the terms of the contract. Due to the inadvertent violation, the actor may then hold to the terms of the contract or engage in new negotiations addressing the contract. The second type of violation, *disruption*, occurs when "it is impossible for one of the parties to fulfill their end of the contract, despite the fact that they are willing to do so" (Rousseau, 1995, p. 112). *Reneging* or *breach of contract* is the third type of violation. In this type of violation, one party refuses to fulfill their part of the contract even though they can do so (Rousseau, 1995). This is the most extreme of the contract violations, in that it is a deliberate violation of contract terms. In the context of family firms, violations of expectations will result in perceptions of unfairness. However, the degree of unfairness of a situation can vary depending on the degree of violation. Breaches of expectations generate the strongest perceptions of unfairness and are likely to also result in behaviors that can be destructive for the organization (Jensen et al., 2010) and for the family.

4.5. Designing and Implementing Governance Mechanisms in Family Firms

One of the functions of the governance mechanisms in family firms is to align the expectations between family, business, and owners regarding the benefits and responsibilities of members in relationship to the business (Botero et al., 2015).

Identification and alignment of expectations between members and organizational representatives is important because it can affect an individual's perception of justice and their reactions toward the organizations. Building on these ideas, this chapter suggests that understanding how individuals form justice perceptions in family firms provides important information for the design and implementation of governance mechanisms within family firms.

Daspit et al. (2018) suggest that in family firms, governance includes a mix of informal and formal mechanisms that affect the strategic behaviors and performance of the firm, and this varies greatly between family firms. This means that each family firm is likely to consider different aspects when creating their governance structures. Given this, we focus on the information that needs to be explicit when articulating the governance of a family firm. Our suggestions are based on the individual cognitive model presented in the previous section. Using this framework, we argue that there are five considerations that are useful in the design of governance policies. The first consideration is *the participation of family and non-family members or representatives in the design of practices and structures that are relevant to them*. The central thesis of this chapter is that recipients/users of governance policies have opinions and beliefs about the policies, what they should include, and how to implement them. Thus, employees and family members who use governance structures and policies, need to be consulted during their creation, implementation, and/or change. This participation can provide insight into the expectations that these individuals have about what the policy should cover and how the policy will affect different stakeholders. Having a clear understanding of expectations helps policy developers be explicit in what they want, why they expect these behaviors, while participation provides buy-in from those affected by the policies and procedures.

A second consideration in the development of policies is *the need to explicitly articulate the logic that is prevalent when determining the distribution of resources for family and non-family members that work within the business*. Given that family businesses are characterized by the presence of two dominant logics – equality and meritocracy – and that these two logics can be at odds with each other, it is important to explicitly articulate what logic is going to be used. For example, when there are family members working in the family firm and there are non-family members employed, there should be a clear articulation of how salary increases, and performance rewards will be determined for both family and non-family members. Clarifying these expectations will help all organizational members understand how decisions are made and why decisions are made that way.

A third consideration in the development of governance policies in family firms is the *articulation of who comparison others are going to be for the different governance situations*. For example, when there are multiple family and non-family members employed in the business, HR policies should explain whether family members will be compared to each other or to non-family members when determining who is going to be promoted within the firm. Given that comparison others activate the expectations to determine fairness, governance policies should explicitly determine what the comparison others are and why these comparison others are chosen. By doing this, organizational members are able to better understand why decisions are made and can help manage assessments of justice within family firms.

A fourth consideration is related to the importance of *clearly articulating policies to avoid perceptions of unfairness*. The organizational justice literature suggests that there are four types of information that are used to assess fairness inside of an organization. These include information about the distribution of resources, information about the decision-making process followed to allocate resources, information regarding the expected treatment of individuals, and information that will be provided regarding explanations given as part of the process. Taking this into account, policy makers should make sure that articulation of any governance policy is explicit regarding these four aspects of any policy developed.

A final aspect to consider in the design of policies in family firms is that *a policy should provide mechanisms to express perceptions of unfairness*. Governance policies should also be able to articulate what can individuals do when they perceive that the policy is unfair or is applied differently to different people. This is important because some of the policies in family firms could have been created a long time ago, when there were different considerations in the decision-making about the firm. Creating opportunities for those affected by a policy to voice their opinions can promote more commitment from members, and stronger perceptions of fairness (Bies & Shapiro, 1988).

In addition to these five considerations for the design, we find two additional ideas related to the implementation of governance policies and practices. First, *the implementation phase of any governance mechanism can benefit from the inclusion of a fairness assessment of the users of the policy*. Given that perceptions of unfairness can trigger conflict between parties (Cropanzano et al., 2001), and that parties may differ in the expectations that they have about what they have agreed to (Rousseau, 1995), it is important to assess the perceptions that users of a policy have at different stages of the implementation process. These evaluations can help in the revision and evaluation of the policy so it can achieve its purpose. A second aspect of the implementation process that is relevant based on the receiver approach is *the need for periodic evaluation of governance mechanisms*. As mentioned earlier, given the long-term orientation of family firms, policies that govern them may be created by early generations of the family. In this sense, as more and more generations become members of the family business, their perceptions may change or the norms may change, which can result in different expectations for different generations. Thus, governance policy implementation can benefit from incorporating an evaluative component as part of the implementation. This can help policies remain relevant for all members of the family firm.

4.6. Concluding Thoughts and Ideas for Future Research

There seems to be a disconnect between academic research and practitioner view of governance in family firms (Binz Astrachan & Botero, 2021; Gersick & Feliu, 2014). One of the reasons for this is that academic research exploring governance in family firms focuses on what practices exist and the effects that they have in family firms, while practitioners seem to be more interested in how to help family firms develop and implement governance mechanisms. This chapter tries to close the gaps between these two approaches by proposing a receiver approach to governance. A receiver approach acknowledges the role that the user of the governance policies and structures plays in the development and implementation of such mechanisms. This chapter focused on three goals: (1) introduce and explain the receiver approach to governance, (2) explain how and why this approach can help us advance our understanding of governance in family firms; and (3) provide guidelines for the design and implementation of governance practices based on the receiver approach. The receiver approach is an important angle in the study of governance. It acknowledges that governance implies an interaction between the members of the family, business, and ownership systems and the family firm, and that most of what we know comes from the organization's point of view. Thus, the receiver perspective to governance considers how individuals assess justice in the context of family firms to develop and implement governance structures that will help formalize the expectations and norms that family and non-family members have regarding their responsibilities toward the family business and the rewards that they can obtain from their membership and participation. As we have discussed, like in any interaction, individuals are likely to develop expectations about a firm based on the interactions that they have with its members, and other experiences. These expectations represent their basis for determining justice within a context. Justice perceptions are important because they affect individual behavior toward the organization (Colquitt et al., 2001; Cropanzano et al., 2001; Jensen et al., 2010).

This chapter uses principles from literature about psychological contracts, equity theory, and organizational justice to develop a cognitive model of how individuals make decisions about justice in family firms. Building on the works of Davis (1983) and Pieper et al. (2013), we argue that in family firms, individuals rely on equality and meritocracy as the two primary logics that guide the interpretation of the environment, and the relevant others that individuals decide to compare to. We suggest that these interaction logics prime individuals to consider and activate specific expectations from the environment and significant organizational members. These expectations are then compared to what they observe in day-to-day interactions to assess fairness in a system. When actions and situations are perceived as fair, individuals are likely to engage in positive behaviors toward the family and firm. However, when individuals perceive actions as unfair, they are likely to engage in destructive or retaliatory behaviors toward the family and the firm. We suggest that to advance our understanding of governance in family firms, we need to incorporate ideas about justice in our development and implementation of practices and policies. By doing this, we can better understand what needs to be included in the development of governance policies and practices and how these practices and policies can be implemented.

Given that governance mechanisms help formalize the expectations and norms regarding the family business, information about how individuals evaluate justice in a firm is relevant because it highlights what needs to be included when developing policies. Based on the model presented, we suggest that considerations that are prevalent when designing policies should include: (1) participation of family and non-family members affected by the policy; (2) identification of logic to use in decision-making about policies; (3) identification of comparison others; (4) explicit articulation of how resources will be distributed, why they are distributed that way, and how will interactions be managed as part of governance; and (5) what to do when a person perceived that a policy is unfair. Additionally, we argue that in the implementation phase, there needs to be ongoing monitoring of the perceptions of justice by the users of the policy. Monitoring should include periodic evaluation of the perceptions and policies. Thus, practitioners can use this information when helping family firms develop and maintain governance mechanisms.

There are several approaches to explore the ideas advanced in this chapter. First, very little research is done on how family and non-family members perceive governance mechanisms. This chapter provides an initial framework to explore the perceptions that family and non-family members have and how they develop these perceptions. This knowledge can help us better understand whether individuals have different logics when assessing situations in family firms and how these logics affect their assessment process. Additionally, it also helps us understand whether individuals in family firms make justice assessments in a similar way as individuals in non-family firms, or whether there is unique information that gets considered in this assessment. Data to explore these ideas could be obtained in different ways. For example, data could be collected using survey approaches within specific family firms or by comparing family firms. We could also rely on experiential situations and case studies to better understand specific situations.

A second area of research could explore how family firms decide what to include in their governance policies and practices. It would be useful to understand how family firms design and implement governance policies, and the degree of consideration that they have regarding the recipients of these policies. Understanding how family businesses make decisions and how they include family and non-family members would provide more details to see how the receiver plays a role in the process. It also can help us understand heterogeneity in family firms by showing how different governance structures may work with different family enterprises. This information could be collected by surveying consultants, family businesses, or by using cases to understand what family businesses do.

A third area that would be interesting to explore is how cultural expectations of different regions affect the relevance that is given to the receiver in the development and implementation of governance in family businesses across the world. It may be that in some cultural context, the participation of all of those involved is more important. Right now, we know very little about the differences in governance practices and policies of family firms around the world and why these differences may exist. Thus, international exploration of governance and reasons for the use of diverse policies and practices would be interesting. Data for this topic could be collected in the form of case studies or general surveys.

A final area of interest for future research would be the effect of taking a receiver approach to governance in family firms on the behaviors and support of family and non-family members regarding the implementation and use of governance structures and practices. As mentioned earlier, we know very little about the perceptions of the users of governance practices and structures in family firms.

Thus, it would be interesting to better understand the effect that an individual can have in the development and implementation of different governance practices. Data for this could also be collected via interviews, using surveys, or conducting cases with different family firms.

This chapter integrates research from psychology, organizational behavior, and family business to provide a theoretical foundation for a receiver approach to governance in family business. We hope this work is useful for both academics and practitioners and can generate further interest in governance through a different lens.

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