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Chapter 5

Family Governance in Practice: Lessons Learned from a 100-Year-Old Entrepreneurial Family Firm*

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Abstract

Family governance is a topic of substantial practical relevance that merits much more attention in family business research (Gersick & Feliu, 2014; Suess, 2014). The purpose of this book chapter is to use the framework of a fair process to gain a better understanding of how family governance practices can help an entrepreneurial family firm flourish. Central to the analysis is the case of a 100-year-old entrepreneurial family firm that will serve as a best practice. Interviews with key members of the family and the business were held, and secondary data were gathered and analyzed. The chapter starts with a theoretical outline of the family as strategic resource and the family governance as a mechanism to manage this strategic resource.

*The case in this chapter has been developed in 2017. Five years later the NNZ is celebrating its 100 year anniversary. This is also an important milestone for the family Boot as a business family. A valuable family governance practice is one of the pillars of this achievement.

Family Firms and Family Constitution, 81–100



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The principles of fair process are introduced as an underlying framework for the well-functioning of family governance practices. This is followed by the introduction of the case and the discussion of the key findings. This chapter ends with some concluding remarks.

Keywords: Family governance; family constitution; framework of fair process; family as strategic resource; single-case study; Netherlands

5.1. Family Governance: Some Theoretical Perspectives

5.1.1. *The Family as a Strategic Resource*

The notion of [Tagiuri and Davis \(1996\)](#) that family firms have unique resources which can create positive and negative outcomes for the firm has been referred to as the “familiness” of the firm ([Sirmon & Hitt, 2003](#)). [Habbershon and Williams \(1999\)](#) describe familiness as the unique bundle of resources created by the interaction of family and business that can stimulate competitive advantage. The Resource-Based Theory (RBT) can be used as a theoretical foundation for understanding the distinctive attributes of a family firm.

The Resource-Based View (RBV) is one of the most influential theoretical frameworks in the field of strategic management ([Barney et al., 2001](#); [Newbert, 2007](#)). [Wernerfelt \(1984\)](#) introduced the notion that firms can be analyzed by focusing on the resources of the firm rather than on its products. A resource is defined by Wernerfelt as “anything which could be thought of as a strength or weakness of a firm.” The key objective of the RBT is to establish a causal relationship between resources and a long-term competitive advantage. [Barney \(1991\)](#) argued that resources should have four characteristics to establish a competitive advantage. They should be: valuable; rare; difficult to imitate; and non-substitutable. These resources are labeled “strategic resources.” Examples include reputation, patents, and unique knowledge ([Barney, 1991](#); [Crook et al., 2008](#)). Barney based the RBT on two assumptions: resources are both heterogeneously distributed among firms and imperfectly mobile. These assumptions allow for differences in firm resource endowments to exist and persist over time.

The RBT has proven its value as an appropriate theoretical framework in the field of family business research ([Chrisman et al., 2003](#)). With this framework, the competitive advantage of a firm can be discussed by referring to the underlying resources, specific strategies, and skills instead of regarding the family effect as one specific advantage that is held by all family firms. [Habbershon and Williams \(1999\)](#) stipulate that this focus on underlying resources, specific strategies, and skills is the appropriate level of analysis to assess family firm advantage. Various

scholars discuss the possible sources of competitive advantage (Carney, 2005; Eddleston et al., 2008; Habbershon & Williams, 1999; Miller, Le Breton-Miller & Miller, 2006; Miller et al., 2008; Sirmon & Hitt, 2003).

Sirmon and Hitt (2003) discuss five possible family firm-specific resources with the following positive outcomes: human capital, social capital, patient financial capital, survivability capital, and the governance structure. In this chapter, we are specifically interested in the last category: the governance structure. However, it is also important to understand that the total effect of family on the business is a combination of the various categories and that these resources interact and have the potential to create synergy. For example, social capital works as a leverage for attracting human capital (Arregle et al., 2007; De Massis et al., 2018). The opposite is also true; for instance, a lack of trust between the family members will have a negative impact on the willingness to provide the business patient financial capital.

5.1.2. Bivalent Characteristics

There is a commonly accepted understanding that familiness is not always a positive characteristic. Sharma (2008) coins the terminology “distinctive familiness” and “constrictive familiness.” “Distinctive familiness” refers to the situation when family commitment and involvement are a source of benefit for the family business. “Constrictive familiness” refers to situations in which, overall, the family attributes have become a negative factor for the business. To explain this, Tagiuri and Davis (1996) emphasize that family firms have several unique attributes and that each of these attributes can be a potential source of benefits as well as a source of disadvantages. Because of their latent positive and negative potential, the characteristics are labeled as bivalent attributes. These bivalent attributes are the immediate consequences of the overlap of family, business, and ownership characteristics. Tagiuri and Davis identify seven bivalent attributes: simultaneous roles; lifelong common history; emotional involvement and ambivalence; private language; mutual awareness and privacy; a shared identity; the meaning of the family company. In relation to the attribute of private language, Jaffe (1990) describes this as family members often having a special shorthand language; they share information quickly and therefore get things done efficiently. However, this doesn’t imply that families know how to communicate about sensitive issues. Flören (2004) mentions the notion that within families, taboo subjects exist ever so often, also in connection to the business. Topics that are rather left unspoken to avoid conflicts to surface can disrupt the family harmony. However, issues that are not confronted can develop into a conflict that eventually can make it impossible to do business together.

Another “classic” example is the role of the founder. He or she has played a crucial role in building a successful firm but if the business founder neglects to train or create sufficient favorable conditions for a new generation to come into play, the whole business may age together with its founder (Jaffe, 1990). This negative effect can be even worse when the successor is reluctant to let go and when the business culture is not innovative (“this is the way we do things around here”). In general, the RBT emphasizes that the availability of appropriate resources is a

necessary but insufficient condition to achieve long-term competitive advantage. The key is the management of resources in such a way that it leads to capabilities that make it possible to achieve a competitive advantage (Sirmon & Hitt, 2003). So, what does this mean within the family firm context?

5.1.3. Management of Strategic Resources

Tagiuri and Davis (1996) suggest that the success of the business will depend on how effective the bivalent characteristics are managed. The success of effective management of these attributes would result in a positive outcome for the business dimension as well as the family and ownership dimension. The idea that long-term prosperity of the family business system requires positive outcomes in both the business dimension and the family dimension is widely acknowledged (e.g., Litz, 2008; Sharma, 2004; Ward, 1997). Sharma argues that recognition of the intertwinement of family and business leads to the definition of high-performing family firms as organizations that take into account financial and non-financial goals to achieve the expectations of various stakeholders of the family, business, and owner group. The expression “warm hearts and deep pockets” stands for those family business systems that have achieved high levels of emotional and financial capital. Sharma proposes that for short-term family firms can overcome low levels in one of the two dimensions. But for long-term sustainability family firm systems need to achieve positive scores in both dimensions.

Another element that is important for the realization of longevity is entrepreneurship. To achieve continued growth and continuity, business families must pass on the entrepreneurial mindsets and capabilities that enable them to create new streams of wealth across many generations – not just pass on a business from one generation to the next. This practice is referred to as transgenerational entrepreneurship. The family’s entrepreneurial orientation (Nordqvist & Zellweger, 2010) denotes the extent to which the overall managerial practices can be viewed as entrepreneurial and reflects the risk-taking, innovativeness, proactiveness, competitive aggressiveness, and level of autonomy within a family firm (see Lumpkin & Dess, 1996; Zellweger et al., 2012). Such entrepreneurial management practices have been shown to improve firm performance (Rauch et al., 2009), especially in rapidly changing and hostile environments (Covin & Slevin, 1989).

The viewpoints discussed in this section articulate the fact that family business scholars widely acknowledge the idea that family firms have distinctive characteristics that stem from the interaction of the three subsystems: family, business, and ownership. These characteristics are bivalent: reflecting their latent positive and negative potential. Furthermore, when these characteristics have a positive effect (distinctive familiness) they can be regarded as a strategic resource leading to competitive advantage. Also, the notion that there is a need to manage these resources in such a way that it results in a positive balance, both for the family system and business system and will lead to transgenerational potential, is accepted by family business scholars.

5.1.4. Family Governance

Family governance is defined as “the voluntary mechanisms established by the business family with the primary aim of governing and strengthening relations between the business and the family, as well as between the members of the business family itself” (Suess, 2014, p. 139). Family governance fits with the concept of relational governance as opposite of contractual governance mechanisms like formal contracts and monitoring systems (Jensen & Meckling, 1976). Relational governance refers to informal social controls, based on mutual trust, a shared vision, and commitment to the firm by owners and management, and embedded in social relationships among owners and management (Mustakallio et al., 2002; Uhlaner et al., 2007). For family-owned companies, Mustakallio et al. (2002) talks about family institutions – including informal get-togethers, formal family meetings, family councils, and family plans – all with the purpose to represent and integrate the needs and interests of the owner-family members and to link the family with the company. A more in-depth understanding is necessary, especially to understand what family governance instruments are applicable for which type of family business (Suess, 2014).

An interesting aspect of relational governance is the balancing act between sustaining trust between individuals and incorporating a certain level of “check and balances” to make sure that everyone involved understands and follows the rules of the game. Where Sirmon and Hitt (2003) argue that the mutually shared objectives, trust, and family bonds make it possible to reduce more formal governance costs it is also acknowledged that this is not something that holds for all family firms. During the life cycle of the family firm, especially when a firm changes from a founder-led firm to a sibling partnership or cousin consortium, the relationships between family members change which could imply that a more formal governance system becomes necessary (Steier, 2001; Sundaramurthy, 2008). Steier (2001) talks about the evolving role of trust where the crux is to change the processes and systems in such a way that it fits with the new stage of the family business with the ultimate goal to sustain the level of trust (Sundaramurthy, 2008). It’s a continuous process, like a circle: in a later phase in the life cycle of the business, the owning family may need some forms of formal governance mechanisms to return to the same level of trust that was between the founders at the time of the establishment of the firm. However, Sundaramurthy (2008) acknowledges that too much focus on formal governance instruments can also be destructive for the level of trust.

Another purpose of installing checks and balances via family governance is the creation of an “insurance policy” against the deviant behavior of family members. It can be seen as a security mechanism to prevent negative behavior and/or conflicts. An example of such deviant behavior is known as the “Fredo effect,” after the middle Corleone son from Puzo’s *The Godfather* novel and films. Conditions unique to the family firm may lead some family members to develop a heightened sense of entitlement and weaker bonds to the firm. This could result in a family member’s incompetence, opportunistic behaviors, and/or ethically dubious actions that can impede the business’s success potentially resulting in a scandal that could lead to the firms’ demise (Kidwell et al., 2012).

In this book, the topic is the family constitution. However, it is important to acknowledge that this code of conduct should not be seen as a standalone governance instrument, but that the constitution is embedded in the broader family governance package and that it relates to the business governance installed. A family constitution is a normative agreement including fundamental principles and guidelines according to which the family organizes its relationship with the business (Berent-Braun & Uhlaner, 2012). Family constitutions are also known as family agreement, family charter, family code of conduct, family statement, or family protocol (Suess, 2014). While the adoption of family constitutions has received an increasing amount of attention in recent years, it is not a modern phenomenon per se: Montemerlo and Ward (2011) name some examples of families' agreements that dates back centuries ago. However, now there seems some momentum: empirical findings suggest that a formal family agreement is nowadays quite common in large family businesses, for example, 50% of the attendees of a family business training program at IMD Business School have a family agreement in place (Montemerlo & Ward, 2011). In small- and medium-sized families, it is much less well known.

Every family is different, and so agreements can only be custom-made. The content of the family agreement also depends on the phase in which the family business finds itself, the size of the family, the number of active and passive shareholders, the culture of the family and the business, the degree of harmony within the family, and so forth. The process of forging a family agreement is just as or even more important than the content of the document itself, the process builds family problem-solving and decision-making skills (Botero et al., 2015; Montemerlo & Ward, 2011). Individual family members need to see the value of working with a family constitution and this appreciation can be developed throughout the process of writing a family constitution and via the discussion of the content during family meetings.

Family Constitution Practices in Dutch Family SMEs

In 2012, a survey was held amongst Dutch family business owners to gain more insights on the practice of family constitutions. An online questionnaire was sent to contacts of a center for family businesses and a family business consulting group. 252 questionnaires were returned (13% response rate), which led to 222 useful respondents. From this group of family businesses, 14% have a family constitution in place and 15% are considering developing an agreement in the near future. There were some significant differences between family businesses with a family constitution or with the intention to develop a family constitution and businesses with no constitution to work with. Businesses in the first group were more often multi-generational, larger in size, there was co-leadership and co-ownership, and the businesses have relatively high growth perspectives. There was no

significant difference in the business focus on economic goals but there was a higher focus on family-centered non-economic goals (Chrisman et al., 2012). The respondents mentioned as most important motives for forging an agreement: keeping family harmony; making agreements on how to work together as a family; organizing the upcoming succession process; arranging an effective governance structure and solving conflicts within the family. Respondents were also asked to reflect on how satisfied they are with the agreement. Overall, they are satisfied and the reason that ranked the highest was that it helps to clarify the relationship between the family and the business. The results show a positive correlation between the satisfaction and the number of times the family agreement is used and there is the relation between motives and satisfaction.

5.2. Fair Process Between Family Members and in the Business

Family governance can be viewed as a mechanism to ensure justice (Botero et al., 2015). Interestingly, the application of justice in a family business is typically more complex than in a nonfamily firm. Van der Heyden et al. (2005) explain in their seminal article how a fair process can help to achieve justice in family businesses. Van der Heyden et al. (2005) focus on procedural justice instead of distributive justice. Distributive justice in the family business is “messy and complicated” (Lansberg, 1989). The root cause of this lies in the application of the three principles of distributive justice, namely *need*, *equity* and *equality* (Ayres, 1996) in the family business system. Each of the three family business subsystems has a different principle as a main guidance: need-based inside families, meritocracies among managers, and equality among shareholders (Van der Heyden et al., 2005). The consequence is that family, managers, and shareholders will judge the fairness of particular outcomes with very different criteria and inherently, it is near impossible that the different stakeholders will come to an agreement on a *fully fair distributional outcome*, therefore the focus on procedural justice. This focus can also be explained by the power of the concept. Procedural justice originated from legal settings (Thibaut & Walker, 1975) and from there it has been applied to various social settings and cultures (Lind & Tyler, 1988) where its relevance widely has been proved. Especially the work done by Kim and Mauborgne (1991, 1997) who used the concept in their study of the strategic decision-making in transnational corporations inspired Van der Heyden and colleagues for building the dual characterization of fair process for family businesses.

The dual characterization highlights the different steps in the decision-making and implementation process and five conditions under which this process should take place. The five steps in the process are: (1) Engaging & Framing, (2) Exploring & Eliminating, (3) Deciding & Explaining, (4) Implementing & Executing, (5) Evaluating & Learning. The steps are a combination of generic steps of a decision-making process (Russo & Schoemaker, 2002), combined with

key observations from the fair process literature (engaging, explanation, and expectations) (Kim & Mauborgne, 1997) and the addition by the authors of the “execution” step. Van der Heyden et al. (2005) added execution to extend the framework from decision-making to the actual implementation and execution. Especially in the context of fairness is it important that “people ought to do what they say, and also ought to say what they do.” Engaging is coupled to framing, together form the first step in the process. The authors argue that it is key that the people whom it concerned all feel involved in an active way right from the beginning. This is needed to frame the decision properly and commit people to the resolution of the issue and/or the implementation of the outcome. When the decision is taken it is important that the decision is explained properly, this is also an opportunity to validate the decision. In addition, at this stage, the expectations need to be set with regard to an effective execution and implementation. Next to the steps in the process, Van der Heyden and colleagues formulate five conditions in which the steps should be executed to achieve fairness: (1) communication and voice; (2) clarity of information, process, and expectations; (3) consistency across people, over time, and with agreed values and norms; (4) changeability of decisions, process, goals, and principles, and (5) commitment to fairness. “Consistency” and “changeability” are characteristics that at a first glance seem to be conflicting but that are actually not the case. Changeability acknowledges the family’s need to alter previous agreements to make sure that agreements reflect current family values and interests, as well as changing business needs. The possibility to review past decisions reflects the requirement of correctability (Leventhal, 1980) but this doesn’t intervene with the need of consistency in the application of agreements once they are installed. As a final characteristic, the authors highlight the need for the family’s deep commitment to fairness and to realize that fairness is not a “mechanical” instrument. If it’s treated as a utilitarian exercise, then the risk is that the benefits of a fair process rapidly are replaced with cynicism and resentment (Van der Heyden et al., 2005). The most preferable situation is when the commitment to fairness is embedded in the core values of the family. One remark of Van der Heyden and colleagues which we want to echo here is the realization that fair process is not an *absolute* but a *relative* concept. In practice, its full essence can only be aimed at and never fully attained. Therefore, it is important to view the fair process as a continuous learning process and appreciate the incremental value of every small step that is accomplished.

Above, we described the process of fairness in the family business from the viewpoint of the family. The owning family is a key stakeholder in the family business but not the only one. Samara and Arenas (2017) draw attention toward practicing fairness in the workplace of the family business, namely the employees, another important stakeholder group. Human resource management in a family business has an extra layer of complication because of the different sets of knowledge, skills, capabilities, and sources of motivations between family and non-family employees (e.g., Dawson, 2012). For example, non-family employees come from a larger pool of talent and therefore may have more outside experience and better training than family employees although this latter group may bring to the workplace deep tacit knowledge and a high motivation stemming from a strong alignment with

the business goals. This complexity makes distributive justice hard to accomplish and that's why also here the focus on procedural justice is a valuable instrument to increase job satisfaction of all employees and will help to preserve the business reputation, not in the least as a good place to work (Samara & Arenas, 2017). So, the framework suggested by Van der Heyden et al. (2005) for building a fair process in the family business is not only helpful for family governance decision-making and implementation but is also valuable from the viewpoint toward the fair treatment of non-family employees. Moreover, these are not fully separate processes, some of the decisions will have an impact on the fair process climate created within the family but also toward the non-family employees.

In the next section, we will use Van der Heyden's characterization as a framework for the analysis of the case.

5.3. Family Governance in Practice: Introducing NNZ

5.3.1. Data Collection

The case study of NNZ, a family business located in the northern part of the Netherlands, owned and run by the family Boot since 1922, aims to qualitatively explore the factors that contribute to the trans-generational potential of a family firm and the role of family governance to achieve this. In order to collect rich, high-quality primary and secondary data, the following methodological approach was developed and executed. First, a literature review of the core theoretical concepts was conducted. Then, in order to gather the necessary in-depth primary data, interviews were undertaken with key actors who held strategically relevant positions (Table 5.1). In addition to the CEO, three people in strategic positions, all non-family, were interviewed. Also, the CEO's niece, a member of the 4th generation, who works in the family business as a sales manager, and the CEO's brother, who is a co-owner but doesn't have an active role in the business, were interviewed. The interviews lasted around 90 minutes each. The main goal of the interviews was to collect sufficient data about the family and the company to allow for the development of the case. The interview questions were predominantly process-oriented, and interviewees were asked to provide examples to clarify abstract answers. The transcripts of the interviews were independently analyzed by the authors.

The Company

NNZ is a multinational company located in Groningen, owned and run by the Boot family since 1922. The business is creating packaging solutions for their clients in the agro food and industrial market (www.nnz.com). In 1922, NNZ started trading jute bags from "Pakhuis Libau" in Groningen, the start of a family business with international ambitions. Today, NNZ has grown into an organization with more than 200 employees, serving clients from offices in Austria, BeNeLux, Canada, Denmark, Germany, Italy, Poland, Latvia, Lithuania, Estonia, South Africa, UK, and USA. In close cooperation with partners in 40 other countries, NNZ provides packaging solutions to a worldwide customer base.

Table 5.1. Interviewees.

	Position in the Business	Family
1	CEO	Family 3rd gen
2	Chief Commercial officer	Non-family
3	Chair person supervisory board	Non-family
4	Chair person STAK board	Non-family
5	Sales manager	Family 4th gen
6	Not involved in the business	Family 3rd gen

5.3.2. The Family Boot

1st generation: Rien Boot started NNZ in 1922. The Boot family originally came from the Gouda-region, the Western part of the Netherlands. Rien had experience with Jute and used a grant from the government to start a trading company in Jute-packaging based in Groningen: the Noord Nederlandse Zakkenhandel (NNZ). Rien married Anna Pieffers and they had four children: Leendert, Femmigje, Marinus, and Wim (Fig. 5.1).

2nd generation: Leendert worked for NNZ. Femmigje stayed at home to help her parents in the household. Marinus tragically died in the Second World War: he was a member of the Dutch resistance and was put to work in a prisoner camp in Germany. Wim didn't start working in NNZ, but went to work in Malaysia to work for another company. There, he met his wife Will who was born and raised in the former Dutch colony "Nederlands-Indië." Rien finally asked Wim to come back and work for NNZ. Femmigje always stayed single and Leendert and his wife didn't have children. Wim and Will had four children: Anja (1956), Marco (1957), Len (1959), and Fred (1965).

3rd generation: Len and Marco work for NNZ: Len is the current CEO and Marco is the president of NNZ Inc, the USA branch of the company. Anja has a career in the healthcare sector and Fred started his own business: he is a producer and one of his productions, the musical Soldier of Orange, is a huge success in the Netherlands.

4th generation: all four siblings have two children, so there are eight cousins that form the 4th generation. The oldest, Rachel, was born in 1978, the youngest, Jip, in 2003. Roos (1980) is the first member of the fourth generation who works for NNZ. She started as an account manager for the industrial market for the BeNeLux in January 2016. Since August 2017, she is the Manager of Sales for the BeNeLux in the industrial market.

5.3.3. The Ownership Structure

Today, NNZ is owned by the four members of the 3rd generation: Anja, Marco, Len, and Fred. Their shares are certified via StAK Libau. StAK is an abbreviation

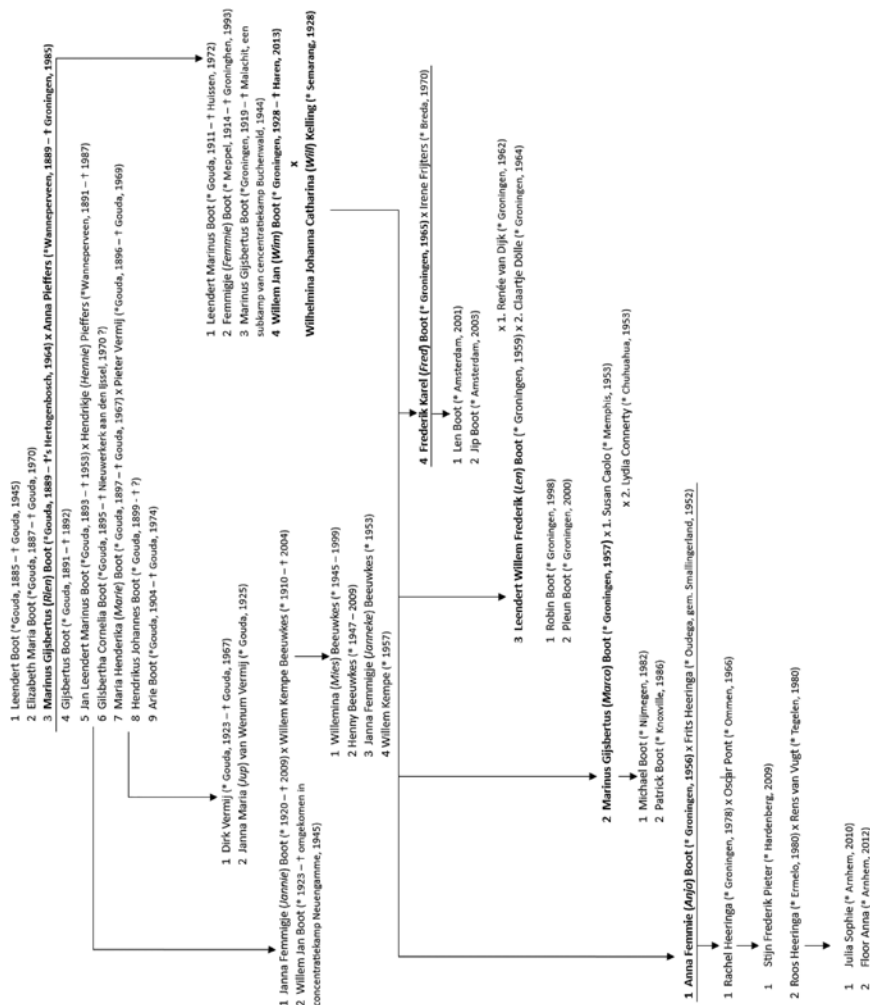


Fig. 5.1. The Family Tree of the Boot Family.

of Stichting administratiekantoor¹ and is an independent foundation that has been set up to acquire shares in NNZ B.V. and, in exchange, to issue depositary receipts. With this, the voting rights have been separated from the economic rights of the ownership. The governance structure of NNZ consists of the board of directors, a supervisory board, and the StAK board. The board of directors is responsible for corporate policy, makes long-term strategy plans and executes them. The supervisory board monitors the board of directors and has to approve certain decisions. In practice, it acts primarily as a sparring partner for the board of directors.

Finally, the StAK executes the legal ownership. This is the place where important decisions such as the long-term strategy as well as important investments suggested by the board of directors and supported by the supervisory board are needed to be approved. The owners have the right to appoint the members of the supervisory board and the board of directors.

NNZ – Ownership and Control – An Overview

The foundation, StAK Libau

In the Netherlands, it is common to work with a two-tier governance system: a board of directors and a supervisory board. This is also the case with the NNZ. The legal ownership of the NNZ B.V. is held by StAK Libau. The general objective of this foundation is the administration and holding of the shares of NNZ, and exercising the voting right and other rights associated with those shares. The foundation has issued certificates to Anja, Marco, Len, and Fred Boot. Both offspring who work in the business and offspring who do not work in the business have acquired shares. It is the family's wish to continue with this principle for the next generation as well. The family constitution describes that certificates can only be transferred to current shareholders, the business and offspring of the current shareholders.

In the constitution, it is explained that concerning the dividend the aim is to invest the major part of the net profit back into the business. In addition, a dividend policy is established and approved in the shareholders meeting.

The StAK Libau board consists of three "types" of board members (A, B, and C). They currently consist of the following: A (one representative of the board of directors), B (one representative of the family), & C (three

¹For Dutch family firms, it is quite common to use the legal construct of stichting administratiekantoor. The possibility it offers to split the economic rights and the voting rights is appreciated by family shareholders. Especially in complex ownership situation, it makes it easier to organize that family shareholders speak in one voice with the business.

independent advisors). A and B both have three votes and each individual type C StAK board member has one vote. Currently, Len has a dual position, he is the CEO and is also StAK board member B. The family members rotate every three years. The independent advisors are appointed for three years and can be re-appointed for a second term.

Rights of certificate holders

Under the articles of association, the certificate holders have only been granted the statutory rights, i.e.: to attend the shareholders' meeting and address the meeting, to see the official financial statements, to challenge any unreasonable treatment, and the right of investigation.

The statutory right to vote lies with StAK, board member B represents the certificate holders in the board. Moreover, the StAK board needs to consult all certificate holders about important decisions before a shareholders' meeting takes place.

Ultimately, the board of StAK can decide on the full or partial conversion of certificates back into shares. This decision has to be taken by unanimous vote in a plenary board meeting, with no board positions vacant.

The Supervisory Board

The certificate holders appoint the supervisory board. In general terms, it is the task of this board to supervise the board of directors with the ultimate goal to assure the continuity of the business. The supervisory board is expected to have a monitoring role in terms of managerial, strategic, and financial matters, and to give unsolicited advice to the board of directors, in particular in financial matters. In terms of management, the board is expected to join the deliberation process and view the business from a different perspective. Finally, it has a role as conflict mediator, also in the unlooked-for event of conflicts between the board of directors and shareholders. All three members of the supervisory board are not members of the family.

Input by family members

All family members are warmly invited to present ideas and plans about the development of the family business to the board of directors and/or the board of StAK, on the basis of the idea that both family and business will benefit from such active input.

5.3.4. The Family Constitution

In 1993, the pre-days of Wim Boot's retirement, Wim started to develop a family constitution, with the help of advisors from an accounting firm. In several sessions facilitated by these advisors Wim and his four children, who would become

the new owners of NNZ, discussed family and business values and all kinds of topics relating to how the family wants to own and manage the company. These discussions were the input for a document that became the blueprint for the cooperation between NNZ and the Boot family. The core motto is: NNZ is a business with a family. The wellbeing of the company and its people come first.

The document, labeled the family constitution, has several chapters. Starting with an introduction to express the purpose of the document: the family, in line with their core motto, wants to be clear on how to act in situations where different interests come together: family interests, the company's interests, and individual interests. After this statement, several paragraphs describe various aspects relevant for a strong cooperation between the family and the business. Paragraphs describe in detail: the family goals and family values; the policy regarding family members working for NNZ; leadership and succession; ownership, control, and the transfer of ownership; the role of the supervisory board; communication practices. The last paragraph describes that every year the constitution will be discussed in the annual family meeting and describes the policy of how individual family members can make suggestions for changes in the document. During the years, some adjustments of the document have been made. For example, in the first draft of the document, a family member was obliged to have working experience in the packaging industry. Nowadays, this is changed to the broader term of "relevant working experience."

The career planning of Roos is a good example of how the constitution plays an active role in prescribing how to act in specific situations. When in 2011 Roos had already some years of working experience, she had a talk with her uncle Len (as CEO) to express her interest in joining the family business. Together they thought of the next career step Roos had to take in order to get the necessary experience. She already had sales-experience, but lacked the experience of working in a large company. She applied for a sales job at Friesland Campina and in a summer vacation she did a short internship at the R&D department of NNZ in order to become more acquainted with the NNZ. Three years later NNZ needed a new salesperson and Roos applied for the job. Being equally good as others, her family membership got her the job. In 2017, she was promoted to a management position. She had to formally apply for this position as well.

When the case was written, the family could reflect on more than two decades of experience with the constitution. It is also the time that some of the younger cousins are turning 18 and are welcomed to the shareholders' meeting and the family meeting.

5.4. Findings

The findings in the interviews are organized with help of the conditions of a fair process as identified by [Van der Heyden et al. \(2005\)](#).

5.4.1. Clarification: Clarity of Information, Process and Expectations

Wim Boot had the vision that it was important to discuss guidelines up front and in addition write them down. When in 1993 he wanted to write a family constitution this was a very uncommon practice, it probably has been one of the first examples

in the Netherlands. Now with more than 20 years of experience all stakeholders agree that the governance structure functions well, and that the constitution plays a significant and active role in this. It is not a document that lays untouched in some drawer but the document is shared with employees, discussed during family meetings and shareholder meetings and when needed checked and used. In its years of application, the document has been adjusted on some specific points.

There is a willingness to professionalize the governance structure, and working with the document has helped to fine-tune the overall governance practice. With the positive outcome that at NNZ there is not a significant difference between the formal and informal organization processes. The chairpersons of the StAK board and supervisory board have both experience with comparable roles in other family businesses. They emphasize that the governance structure of NNZ can be seen as a best practice. A key element in this success is that all actors in the governance arena respect each other's role. This not only counts for the formal decision-making processes but also has a lot to do with informing the different parties. For instance, there is informal contact between the chair of the StAK and the chair of the supervisory board.

5.4.2. Communication and Voice

The core motto of the owning family is that NNZ is a business with a family. This motto influences many aspects of the business. All family members, also the ones who don't work in the company, are well known by the employees. The commercial director expressed that the family supports the business

we have very good contact with them, they really give the impression that they believe in the company, they support us and at the same time they give the freedom to take decisions which we think are necessary. Moreover, they support everything NNZ does as a team.

The family is very open in communicating the governance structure. The family constitution is for example translated in English and in every NNZ office around the world a copy can be found. Non-family coworkers are welcome to read the document to gain a better understanding of what exactly is meant with "a business with a family."

The family has decided that turning 18 is the time for the first invitation to attend the shareholders meeting. The idea is that attending the annual shareholders' meeting and family meeting will help to increase the awareness of what it means to become a shareholder and, in this way, serves as a learning process for their potential future role. The family meeting is followed by a family weekend, here all spouses and younger children join in, and this get-together helps to maintain strong relationships between the siblings and to strengthen the connection between the cousins of the 4th generation and the extended family members. Also, for the young members of the 5th generation, it is a great opportunity to feel welcome and to get to know their extended family.

5.4.3. Consistency Across People, Over Time and with Agreed Values and Norms

A good example of consistency between family members has to do with the hiring policy: when in 2018 in addition to Roos another member of the fourth generation expressed his interest of a career in the family business, Len treated his cousin exactly the same as he did with his niece. Len had an interview and during the interview the policy as stated in the family constitution was explained and discussed. Len expressed that in principle his nephew is welcome but that in addition to his current level of education and experience he needs a couple of more years of experience in a corporate environment.

The family members are all very aware of the importance of “walking the talk.” With the company growing and professionalization being an important focus, the aim is that all coworkers, especially those who work at the head office in Groningen, have to have higher education. This also counts for family members. Moreover, only when a family member is equally good as others, the family membership can finally help to get the job. As a family member working at NNZ there are high expectations and probably even an extra critical eye. This all has to do with the belief that it is crucial to get the best possible people for the business. When Wim wanted to retire, everyone one including Len, agreed that Len didn’t have the experience yet to become the new CEO. Therefore, for a couple of years an outsider stepped in to lead the company and also to act as coach for Len to prepare him for the position. This was a clear signal that the business comes first.

Incidentally, the family doesn’t follow the rules of the constitution. An example is an investment in another company done by the oldest brother. In the family constitution, there is a paragraph that explains that this is forbidden. The reason behind the rule is that investments in other companies could lead to a lack of focus on the family business. The family members discussed this and decided together that this was not the case here so that there is no need to strictly follow the rules of the constitution.

5.4.4. Changeability of Decisions, Process, Goals, and Principles

As the fourth generation finished school and started their careers, subjects like “working for NNZ” were opened. In the first drafts of the constitution, a family member was obliged to have working experience in the packaging industry. Nowadays, this is changed into relevant working experience. In addition to these explicit changes there are also changes that have to do with more general changes in society. For example, Roos explained that for her mother it was not expected that she would have a career in the family business, now this has changed, gender is not an issue anymore. The ownership structure will in the next decade change from a sibling partnership into a cousin consortium. Although this is not a current topic on the agenda, everyone is aware of it and understands that it could mean that additional discussions need to take place in the near future. For instance, with eight potential candidates for leadership positions in the firm, is there a need to discuss the importance of making sure that there is a balance between family

and non-family members in the board? Another topic mentioned is the increased possibility that one of the shareholders will want to sell his or her shares. How can we make arrangements so that the business and the family is ready if something like this would happen?

5.4.5. *Commitment to Fairness*

Throughout the interviews, it became clear that the values of the Boot family have an impact on the business culture and that the governance practice is built on these values as well. So, there is a good match between the family, the business and the governance structure. The family members working in the business feel a strong moral responsibility. The family values (leading by example, openness, taking care of each other, and honesty) are translated to internal firm values. The strong social relationships between the family members are reflected in the business culture, NNZ wants to be a wonderful place to work, coworkers of NNZ are more important than customers: when people are happy at their work, they will help customers better. To give one example for this practice, every workstation has an empty chair, this is to stimulate that colleagues sit down with each other to discuss things together instead of sending emails. The great sense of morality and belief in openness and honesty is also seen by the non-family board members. They feel at home in this family business and are stimulated to improve the current practices. Overall, this has led to a strong commitment to a fair process.

The interview with Fred revealed how the family values and governance practices influence not only NNZ but also Fred's own company. Fred explained how his leadership style of "management by democracy" was influenced by what he learned from his father, the importance of harmony: decision-making takes longer which sometimes is tough, but once the decision is made there is commitment because of the decision is made by consensus. The governance practices of NNZ have been helpful in his role as owner-manager working with external shareholders. The familiarity with the shareholder meetings and the role and tasks of the board of supervisors have helped a lot to gain confidence to fulfill the formal roles that came with the private equity investment.

5.5. Discussion and Conclusions

The case of NNZ is an example of how an entrepreneurial business can flourish with help from a family and vice versa how the business is helpful in maintaining strong relationships in the family, not only between siblings but also between cousins living in different parts of the world. The family governance practices are an important building block for maintaining this strong and synergetic relationship between the family and the business. The family governance practices in this case are an example of how an understanding of and deep commitment to the principles of fair process can be transformed into a solid practice. A practice that is beneficial for the individual family members but also helps in securing that the business has the owners and management it deserves.

The analysis of this successful case reflected the conditions discussed by [Van der Heyden et al. \(2005\)](#). In this example, all conditions were met with a key role for the family values as a strong foundation for the implementation of the concept of fair process. Furthermore, the case makes it clear that the various conditions interact with each other and are not always easy to separate. It is maybe better to see them as different aspects of a multi-layered concept.

In addition to the importance of fair process within the family this case revealed the value of the governance practices for the other stakeholders to perform well in their role. The interviews showed how important the formal governance practices and the commitment to fair process is helpful for the functioning of the non-family board members, the supervisory board, and the non-family members of the StAK board.

More than 20 years of practice with the family constitution and the additional governance practices have evolved into an institute of fair process for this family and the business. It is an important ingredient for creating and realizing transgenerational entrepreneurship potential. The family ownership and family leadership are a strategic resource for this business. Moreover, the governance practices are an example of appropriable resource, it has become a framework for the governance of other entrepreneurial practices of individual family members as well.

This chapter is based on a single case; therefore, it would be helpful to analyze more cases, especially also non-successful cases. To gain a more in-depth understanding of the mechanisms underneath the processes it would be welcome to investigate incidents where the family governance system has to play an active role to maintain a synergetic relationship between the family and the business. Another line of research that is promising is the impact family governance has on the functioning of different stakeholder groups. For instance, more knowledge about the relationship between sound family governance practice and attracting and keeping highly qualified non-family employees is something academics and practitioners would welcome both ([Gersick & Feliu, 2014](#)).

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