

PROTECTED BY THE FAMILY?
HOW CLOSELY-HELD FAMILY FIRMS PROTECT MINORITY
SHAREHOLDERS¹

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Abstract

Most companies in the world are owned by families, and a majority of them are registered in countries where the legal protection of minority shareholders is weak. Is family control the consequence of the lack of investor protection? It is known that agency problems among owners actually increase in family-ownership situations, so family control by itself may not be an efficient substitute for the legal protection of minority investors. In this article we analyze successful strategies used by Canadian and Latin American business groups and firms to increase the satisfaction of their minority shareholders and to limit the incentives of the controlling shareholders to abuse them, and predict the outcomes of that protection. From these experiences we are able to suggest some conditions that are required in order for family control to be an effective response to the lack of legal investor protection.

Keywords

Corporate governance, family firms, investor protection.

¹ Authors are listed in alphabetical order. All errors remain ours. The first author wishes to acknowledge the generous funding of CEFE (Centre for Entrepreneurship and Family Enterprise) of the School of Business at the University of Alberta, which provided seed money through a research grant.

Introduction

What happens to minority stakeholders when they operate in locations that do not protect their rights? Intuition, supported by a wealth of anecdotal evidence and some academic research, show that whenever a locale does not have a comprehensive protection of minority stakeholder rights, their interests tend not to be catered to as much as they would in minority-friendly locations. The mechanisms deployed to abuse the rights of minority stakeholders are multiple and quite well-known, and range from the internal consumption of profits to the transfer of assets at below-market prices (“tunneling”), and include other well-known tricks such as manipulation of transfer prices within conglomerates among many others. Indeed, it is precisely the lack of minority shareholder protection that has pushed some authors to explain the relative underdevelopment of the capital markets of most emerging economies, including obviously Latin American ones. (A notable exception is La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 2000; A notable exception is 2002, who study the consequences of varying degrees of minority shareholder protection on the structure of ownership.)

What happens when, in addition to these considerations about the regulatory system, we add the fact that most of these firms are closely-held family firms (henceforth family firms or FF? (see La Porta, Lopez-de-Salinas, Shleifer, & Vishny, 1999) If, as Leon Tolstoy claimed, “all happy families are alike; each unhappy family is unhappy in its own way” we could reasonably expect the presence of the family to have a significant impact on firm behavior. Both academic research and practical experience show us that agency problems increase when the family dimension is incorporated into the analysis, so one can safely conclude that family control of firms, whether the family is happy or not, may not be a very efficient substitute for the legal protection of minority investors.

Yet, empirical evidence shows that at least some large, multinational FF do protect the rights of their minority shareholders, whether the law requires them to do so or not and, more to the point, whether the minority shareholders are related to the core of the family or not. Thus, we believe it is necessary to understand what are the mechanisms that these FF use to align the incentives of all stakeholders, controlling or minority, employed by the firm or not, and later evaluate whether they are idiosyncratic or, conversely, they can be generalized to a larger population of FF.

Accordingly, this paper consists of three main sections. In the first one, we develop a literature review on the two problems that concern us. First, we focus on closely held FF, on their mechanisms of governance and on their “political economy” (R. Morck & Yeung, 2001).

Second, we focus on minority shareholder protection. On the second part of the paper, we integrate these two phenomena into a matrix that describes four archetypical behaviors, and present the model resulting from their interaction. We then present a series of propositions issued from our theoretical understanding of the problem, and conclude with suggestions for empirical testing of the model and further empirical research.

Family firms and protection of minority shareholders: an overview

It is an often-neglected fact that firms outside the USA and the UK are generally not widely held, but controlled by families (La Porta, Lopez-de-Salinas, Shleifer, & Vishny, 1999; Randall Morck, 2000; R. Morck & Yeung, 2001; Sharma, Chrisman, & Chua, 1996; Shepherd & Zacharakis, 2000). This fact, which a superficial analysis could link to a primitive phase on the development of a fully developed capitalist economy, is also true in the US, where 30% of the Fortune 500 firms, which in turn account for about 50% of US GDP (Aronoff, Astrachan, & Ward, 1996; Shanker & Astrachan, 1996) and employ about 80% of the active population, are controlled by families (Gudmundson, Hartman, & Tower, 1999). Family firms, thus, matter.

Research on family firms provides important insights on their behaviors and motivations. In his review of the literature, Dyer outlines some important dimensions that distinguish the behavior of family firms and publicly traded ones (Dyer (Jr), 2001). Specifically, family firms tend to have strategic orientations that are different than publicly owned firms (Gudmundson, Hartman, & Tower, 1999), to choose low-risk strategies that contribute to maintain control of the firm's ownership in the hands of the actual shareholders (Mishra & McConaughy, 1999) and to adopt business goals that are congruent with the larger goals of the family (Tagiuri & Davis, 1992). Also, we know that family firms actively use family values to decide of asset allocation and deployment (Harris, Martinez, & Ward, 1994; Kahn & Henderson, 1992; Tagiuri & Davis, 1992), and we suspect that they may have a longer term perspective than public firms (Porter, 1992).

In addition to behaving idiosyncratically, family firms have also two structural characteristics that distinguish them substantively from other forms of ownership. A salient feature is that they tend to be controlled by relatively small parties of closely related individuals, whose control is typically dominant and uncontested (La Porta, Lopez-de-Salinas, Shleifer, & Vishny, 1999; R. Morck & Yeung, 2001). Also, it is very common to see that at least some of

these controlling individuals have a direct participation in the management of the firm, often (though not always) as members of the top management team, which gives them considerable power over these firms, typically beyond their cash-flow rights. (La Porta, Lopez-de-Salinas, Shleifer, & Vishny, 1999)

As a consequence of this situation, the main conflict of interest in family firms becomes the expropriation, often legal, of minority shareholders and creditors by the controlling shareholder rather than the common conflict of interests between professional managers and shareholders. As discussed, this expropriation may take a wide variety of forms, some of which are legal in some locations but illegal in others. (Johnson, La Porta, Lopez-De-Silanes, & Shleifer, 2000). This agency problem is qualitatively different from the ones that affect large dispersed-ownership firms. Ever since Berle and Means (Berle & Means, 1932, who observed that control of the large corporation was shifting from stockholders to professional managers, the latter has been the archetype of the American firms studied in the literature, where ownership and management were separated. Traditional agency theorists affirmed that family firms were not as affected by the agency problems prevalent in this type of ownership, implying, if implicitly, that family firms were better at protecting minority shareholders, particularly when these were family members. Fama and Jensen, for example, claimed that family management of a family controlled firm is an efficient mechanism to solve agency problems that could arise in other ownership arrangements (Fama, 1983 #1951). Tolstoy was right: a happy family was all you needed.

In spite of Fama's optimism, we know now that agency problems associated with private ownership and owner management are exacerbated, not diminished by the family relations that are foundational dimensions of family firms. As Morck claims, these firms have a radically different "political economy", which in turn affects the dynamics of the economies in which they operate (R. Morck & Yeung, 2001). Contrary to the romantic view of family ties presented by Fama and Jensen, research has shown that family firms suffer from agency problems that are generic to other firms and, in addition, from some that arise from the peculiar nature of the relationship between owners. For example, Schulz and associates empirically show that altruism, prevalent in family firms, creates a host of additional problems to family firm. These can be summarized in three categories: agency costs of monitoring agents who are also family members, agency costs of monitoring owners that are also members of the family, and configurations of agency threats, where control mechanisms aggravate each other, exacerbating their effect on firm performance. (Schulze, Lubatkin, Dino, & Buchholtz, 2001)

As mentioned, much of the research on large, tightly controlled FF focuses on family dynamics and their consequences for firm behaviors. A common research stream, for example, studies the consequences of unusual family events on the firm, such as succession, retirement, incorporation of new family members (see, for example P. Davis & Harveston, 1999; P. S. Davis & Harveston, 1998; Gudmundson, Hartman, & Tower, 1999; see, for example Miller, Steier, & Le Breton-Miller, 2004; Shepherd & Zacharakis, 2000), or, conversely, on the consequences of firm events of the family. (Dyer (Jr.), 1986). While comparative research across family firms is common, research analyzing the consequences of different environmental conditions on family firm behavior is much rarer, probably because of the complexities of the data gathering. (Examples to the contrary can be found in Burkart, Panunzi, & Shleifer, 2003 and La Porta, Lopez-de-Salinas, Shleifer, & Vishny, 1999)

Difficulties aside, we believe it is important to link firm behavior to environmental conditions, and predict the outcomes of the model. More specifically, we believe that one of the most important environmental variables for large firms has to be the degree of sophistication of the capital markets in which the firm operates. It has been argued (La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 2000) that one of the factors that affects the development of capital markets is the protection they offer to minority investors and its enforceability, and the stability of these rules or, at least, of the core of these rules. This is so because these rules determine to a large extent the propensity of outside investors to join as minority shareholders in a firm controlled by someone else (or, in Adam Smith's terms, "other people's money"), including families. In the next section we examine minority shareholder protection in that context.

Minority shareholder's protection

One potential weakness of Schulz and associates study is the peculiar contextual conditions of the sample. It has been known that gathering useful and reliable data on family firms is particularly difficult (Wortman Jr, 1994), a fact Schulz et al (2001) examine comprehensively and address in their methodology section, but less emphasis is placed on the regulatory framework under which the firm operates. Specifically, their study is biased by the fact that firms in the sample operate in the USA, a society that protects to a large extent the rights of minority stakeholders, possessing a judicial system that works reasonably well. In the USA, and unlike most of the world, a disgruntled shareholder can expect a legal system that guarantees protection should the law be violated.

Yet, if we are to understand FF and their behavior, we need study firms that operate in different legal frameworks. What happens, for example, when the minority shareholder of a family firm who is typically also a family member, is certain that taking grievances to court is a waste of time and money? Under these circumstances, one can expect at least some reticence from family members to invest in a firm they do not control, in spite of the family ties. In addition, and exacerbating the same phenomenon, very few external investors will invest in family firms as minority shareholders under these conditions, and those who do will require considerable premiums to do so. As far as family members goes, one could expect high instability of this structural arrangement in those family members who do not control the firm and/or manage it. Yet, if this is the case, why are there so many family firms with so many minority stakeholders, even in locations with weak legal protection?

We believe the answer has to do with a combination of two dimensions: the legal protection available in the locale where the firm operates, and the actions of the firm to enhance that protection whether the law requires it or not. Simply stated, firm behavior replaces legal protection. We do not invoke here moral reasoning (although we do not deny it may be present) but competitive advantage: firms that protect their minority shareholders will have considerable advantages over those that do not. The argument is simple: as in any fiduciary relationship, the relationship between the firm and its investors must be based on trust. It is the lack of trust what makes us rely on the legal system to provide protection against the expropriation of minority investors.

Family ties can be seen as providing bonds of trust that can substitute those that are supposed to be provided by the legal system. This has lead some authors (see, for example, Panunzi, Burkart, & Shleifer, 2002) to propose that family firms are more common in countries with weak protection of minority investors precisely because family ownership is a substitute for the legal protection of minority investors. But this is based on either of two implicit assumptions: (i) that agency problems do not exist when the agent and the principal are members of the same family, or (ii) the family has internal mechanisms to deal with such problems whenever they exist. Given that there is plenty of evidence that agency problems indeed occur in family firms, a common weakness of this kind of study is therefore the lack of descriptions about the mechanisms, and their effectiveness, used by family firms to deal with agency problems. For an early and more thorough survey of this strand of the literature, see (La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 2000).

Combining Family Dynamics and Investor Protection: a typology of Family Firms Environments

In this section we combine two dimensions, family dynamics and legal investor protection to define four different types of environments. Family firms in each of them will be faced with specific challenges that will require different responses. Therefore, it is important for a family firm to identify in which of these categories it fits, and behave accordingly.

**Insert Figure 1
about here**

Clearly, the best environment for a family firm is the upper left quadrant (rules reinforce family). When the family controlling the firm has a good family dynamic, and the firm is at a locale that provides strong protection for minority investors, the FF is in an ideal position to become successful. Then we have the situation in the lower left quadrant (rules replace family). A FF in this environment can not only survive but also be successful, because a strong protection to minority investors may allow shareholder conflicts steaming from family feuds to be solved through the legal system. In third place we can turn to the upper right quadrant (family replaces law). A good family dynamic can compensate for the lack of minority shareholders, even if the latter are no members of the family. However, its effectiveness will diminish as the ties between shareholders become more diffuse, making FF particularly vulnerable as it progresses trough the generational transitions. Finally, FF in the lower left quadrant (downhill) face a complicated situation, and may not able to attract any kind of minority shareholder, or even to keep the current ones. We now illustrate each of these categories with a real life example.

Illustrative vignettes

Downhill: El Periódico de hoy

El Periódico de Hoy (Today's Newspaper) is the leading Newspapers Company in one Latin American country. As most Latin American Newspapers, El Periódico is a family own business. But rather than being the solution to the weak legal protection of minority investors prevailing in the country, family ownerships actually presents a huge risk for the continuity of the firm because family problems have been translated to the company's operations.

The risk comes from a family feud that has started to take its toll on the company. The firm is currently owned by brothers of a prominent family (second generation). The problems started a few years ago when a conflict among the brothers produced a rift in the family that is still to be repaired. Then, one of the brothers took advantage of a complicated ownership structure to take control of the company. It then proceed to exclude the other branches of the family from the decision making process of the company, even tough they hold more than 60% of the outstanding voting shares.

In turn, the other two branches of the family got together and challenged, successfully, for the control of the firm. Once in power, they decided to exclude the previous controlling group from the decision making process. They also turned around El Periódico, which yielded profits for the first time in several years. You could think that this will have relaxed the tension around the control of the firm, but it ended up being exactly the opposite. The new success of the company awakened new conflicts when the CEO of El Periódico, a family member, started to cash out bonuses for the good performance, while the shareholders where not receiving that much through dividends due to an ambitious expansion plan that demanded big investments.

Eventually the situation reached unmanageable levels, and the family was forced to look for outside help to try to improve the situation. The approach was to simply look at the corporate charter and see what kind of provisions could be established in order to prevent situations like this to arise again, as well a to provide minority investors, which by the time were all family members, with a more sounding legal framework to protect their investment. One of the first issues tackled was to simplify the ownership structure, in order to make it more transparent. Although the company seems in a better track and profits are now a constant, the proximity

succession to the third generation is hanging over El Periódico as a defining test moment for how well the corporate governance mechanisms will be able to compensate for a family situation that more likely will continue to be problematic.

This case illustrates two important concepts. The first one, at the core of our argument, even though family ownership can be a substitute for the lack of legal protection to minority investors, this needs not be the case, and it can backfire, making the minority situation worse even if all shareholders are members of the same family. Therefore, it is simply not right to just assume that family ownership is always an optimal solution to the lack of legal protection. In second place, in our experience most family firms with similar problems will try to solve them by improving corporate governance mechanisms first, and then only after that they will address the family problems. This is probably due to the fact that corporate governance can be dealt with in a business setting, while family problems need to be solved in a more personal and perhaps not so rational level.

Family Reinforces Rules: Electrodomésticos Moravia

Electrodomésticos Moravia is a Central American family-owned Multinational that sells appliances. The controlling shareholder commanded an initiative to change the corporate charter, self-limiting his own ability to make decisions, in order to protect the interest of the minority in a hypothetical conflict of interest. In particular, he offered that major strategic decisions like capital increases, appointments to the board of directors, joint ventures, etc, require it at least 80% of the votes (which he did not control, forcing him into alliances with minority shareholders), rather than just a simple majority (which he could do of his own volition).

The main goal of this decision was to lock the commitment of some key members of the family with the future development of the company, principally with its geographic expansion. These family members had the abilities and capital required to turn the-up-to-that moment local firm into a multinational with operations in three countries, becoming in a short period of time one of the regional leaders in the industry.

In this case there was a strong family bond between the founder and controlling shareholder in one hand, and the family members on the other. However, the bond was not

strong enough for the latter to commit their funds and time to the firm. Even though these other family members were to be responsible for the operations of the company in other countries, they also wanted a say in the corporate matters. This goal was accomplished through a shareholder agreement and some modifications to the corporate charter.

In the process, the family decided to include other matters like succession, employment of family members, etc, as part of the shareholder agreement. Some of these were really not required for the expansion project, since the second generation was still young and the third was using diapers at most, but it was accomplished taking advantage of the favorable climate created by the whole process.

There are two notable points in this example. First, the process was triggered by the expansion project, and the family members that were considered were those that could precisely contribute to the mentioned project. Not all the family members were included in the shareholder agreement. However, the agreement would not have been possible if the investors involved were not family members, since at the time the founder was very reluctant to share power. Second, the final result put the FF in a position where it can attract new minority investors from outside the family, if desired.

Rules replace family: McCain Foods Limited

McCain Foods Ltd. (MFL) is the world's largest maker of French fries, invoicing roughly 6.5 billion US dollars in 2003 in over 55 countries. It is also an excellent example of a company that thrived in spite of a bitter dispute among its owners and founders, brothers Harrison and Wallace McCain, thanks to the presence of a legal system that protected some basic rights of the minority shareholders. (A full account of the McCain family and company can be found in Waldie, 1994; A full account of the McCain family and company can be found in Woloschuk, 1995)

Founded in New Brunswick, Canada, in 1956 by four brothers (Harrison, Wallace, Robert and Andrew McCain), the company grew without attracting much attention until 1993, when Wallace and Harrison McCain, co-CEOs for nearly 40 years, disagreed on who should succeed them after their death or departures. While Wallace preferred an outside professional manager to

run the company, Harrison wanted to appoint his nephew Allison. After months of bitter dispute, the issue was taken to the New Brunswick courts, which eventually sided with Harrison. (Anonymous, 1995; Newman, 1998b)

As a consequence of the sentence, Harrison took over the control of the company, firing Wallace and his sons from any executive positions in MFL, and went on to appoint Allison as Deputy Chairman in 1999, and in 2002 CEO of the group of companies. The brothers never reconciled after the court sentence, and remained disgruntled until the death of Harrison in March 2004. (Anonymous, 1995; Newman, 1998b)

Yet, in spite of the animosity, Wallace and his family retained at least 1/3 of all company shares, and never suffered any discrimination from his brothers. In addition to the unquestionable morals of Harrison, Canadian law protects minority stakeholders in firms or groups of firms from a form of expropriation called “tunnelling”, where profits from one firm are transferred to the controlling firm until most profits remain at the group level, typically wholly controlled by a small group of individuals. The Canadian Business Corporation Act, in the section dedicated to “oppression remedy”, protects minority shareholders when they feel their company is tunnelling profits to another company rather than distribute them. It has been reported that this provision is the most frequently used corporate governance legislation in Canada. (Randall Morck, Stangeland, & Yeung, 2000.; R. Morck & Yeung, 2001)

Our interpretation of this situation is simple: since Canadian law protected Wallace and other minority shareholders, Harrison had powerful incentives to treat him lawfully even after a bitter dispute over the destiny of the company. The family, once united, had become deeply divided, but the law was effective enough to avoid abuses of power from the majority shareholder, in spite of his feelings towards his brothers. In fact, MFL continued to grow after Wallace’s departure, making Harrison and Wallace both very rich. So much so, in fact, that the magazine Forbes in 2004 listed Wallace McCain as being 30% richer than Harrison, to a large extent thanks to his shares in MFL. Our analysis is partly confirmed by a comment by Allison, who in 1999 said “If we are talking about a pure business issue, everybody (the owners) gets along fine (...) In matters that were in dispute among the family, well, I don't think people have changed their views very much.” (DeMont, 1999)

Rules reinforce family: Bombardier INC.

Bombardier, the second largest industrial group in Canada, was founded in the 30s by Joseph-Armand Bombardier in Valcourt, a small town in Québec. From its origins as a manufacturer of small snowmobiles, Bombardier has become a multinational group with interests in defense, aerospace, mass transportation and engineering. (Maclean's, 2000)

Joseph Bombardier created the company and made it prosperous for almost thirty years. However, his death at a young age after a long disease proved a difficult challenge for the company. No son or daughter was ready to take control, and the company had never been managed by anyone but Mr. Bombardier himself. After long family deliberations (with the collaboration of Mr. Bombardier), the family appointed Joseph's son-in-law Laurent Beaudoin, who became Chairman of the Board of the Bombardier group of companies shortly after Joseph's death. The arrangement had come from a strong consensus within the closely-knit family, and continued for many years. Since the arrival of Mr Beaudoin to the head of Bombardier, the company has continued to grow.

Mr. Beaudoin's tenure was so successful that the company, already prosperous, diversified into mass transportation and aerospace, becoming, according to some, the only challenger to Boeing and Airbus (Economist, 1997) and a dominant player in the Regional Jets segment of the aircraft industry. When he retired in 1998, Mr Beaudoin chose an outsider over Mr. Joseph Bombardier's son, in a move that had the approval of the family (who at the time still had 62% of the voting shares) and was widely applauded by market analysts. (Newman, 1998a)

Growth required capital, and Bombardier Inc was quite successful in attracting it. For example, in late 2003, a US equity firm bought another 10% of Bombardier's recreational division, bringing its total ownership to 50%. The fact the Bombardier-Beaudoin family still controls Bombardier Inc through a complex voting share structure did not prevent Bain co and the Caisse de Depots du Québec (Québec's pension plan and Canada's largest asset manager) from acquiring a large part of the recreational division. In this case, the presence of a functional family in control of the firm, together with a legal system that preserves the interest of the minority shareholders created a situation where new capital could be attracted without relinquishing control and, according to sources familiar with the transaction, with very attractive

conditions for the firm. (Chipello, 2003; Watson & Kirby, 2003)

This is a fine example of the positive interaction between a functional family and an environment with rules that protect the interest of minority shareholders. The Bombardier-Beaudoin family had no trouble making consensual decisions that were crucial to the company (including bringing in-laws and outsiders into the top management of the firm), balancing the interest of the family and the competitiveness of the firm. In addition, however, they benefited from a legislation that allowed the minority investors to take legal actions whenever they felt that were mistreated by the controlling family.

Integrating Family Firms and Investor Protection: a framework

We are primarily interested in the ability that a firm has to seize new opportunities, particularly when they require resources and capabilities that are not controlled by the firm. We believe that in these cases, new partnerships are required, often involving the participation of new minority shareholders. Yet, it is not merely a matter of attracting new shareholders, but good shareholders who can provide the expertise and the capital required to transform the opportunity into a successful business. The ability to attract them, we believe, is function of both the quantity of potential partners to select from, and of their quality, defined as the complementarity with the current assets and skills of the firm and the distance to the assets and skills needed to seize the opportunity.

As the model illustrates, both quality and quantity depend on the degree to which the firm protects its minority shareholders. As discussed, this degree of protection is closely related to the legal requirements of the environment in which the firm operates, but also to the family dynamics. For the former variable, degree of protection does not refer to how good the family dynamics are or how well minority shareholders are treated when they are also family members. Rather, it refers to the way a good family dynamics is translated into rules created by the firm that bind the behaviour of managers and owners alike (such as shareholder agreements, or charters that require wide consensus on important decisions), well beyond what the law requires. Given that, as we know, most firms operate on environments with quite weak protection for minority shareholders, we believe that the last variable is crucial in explaining why some family firms are able to enter into associations with non-family partners who do not control the firm.

**Insert Figure 2
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Conclusions and suggestion for further research.

This paper studies the interaction between two forces that shape the behaviour of most business organizations: weak legal protection for minority shareholders and family ownership. By integrating these two facts in a matrix, we are able to create a typology of firm environments that distinguishes behaviours according to the degree of protection required by the legal system in which the firm operates and the dynamics of the family that controls the firm.

Using the typology as a platform, we then create a model that shows how both family dynamics and legal environment can help predict both the quantity and the quality of minority shareholders the firm will be able to attract, and as a consequence, the range of opportunities the firm will be able to detect and seize, particularly when these opportunities stretch the firm beyond its current capabilities. Our model develops testable propositions about the relationships among these variables.

Our typology and the model has substantive implications for business managers, as it clarifies what actions ought to be taken to improve the likelihood of identifying and seizing business opportunities that require capital and/or expertise beyond the control of the firm. Firms that combine good family dynamics with a legal environment that protects the rights of minority shareholders are in an ideal situation to attract new, minority investors, as the rule of law and the behaviour of the family preserve the rights of the new partners. Firms that operate in environments where the laws are weak or not enforced adequately need to find mechanisms to embed minority shareholder protection within the firm by using adequate instruments to the task, such as making modifications to the charter, or getting into shareholder agreements that require consensus rather than simple majorities to make substantive decisions. Conversely, firms that operate in environments with adequate protections but that are controlled by dysfunctional

families or families with issues that require attention would benefit from using tools that improve the family dynamics and provide them with mechanisms to solve the problems of the family. Finally, firms that combine both dysfunctional families with weak legal protection benefit from addressing both problems, although not simultaneously.

Our model predicts that these firms would benefit most from creating rules to protect minority shareholders first (which may or may not include members of the family). Rather than being tacit, these rules should be made as explicit and comprehensive as possible, to ensure that the protection is not simply for family members but also for any investor with a potential stake in the company. We believe that these rules may also help to address some of the issues that create conflicts within the families. Once minority shareholder protection is firmly embedded, family issues can be addressed using tools designed to improve decision processes within the family.

The implications for researchers are clear. A natural sequel to this work would involve its empirical validation. Although we do not foresee particular problems in its operationalization, data gathering could be difficult. As documented by Schulze, data gathering about family firms is difficult, and the cross national nature of the model will certainly add another layer of complexity. To address these issues, we believe that the multi-case methodologies proposed by Eisenhardt and associates (Eisenhardt, 1989, , 1991) could provide useful, as they resolve the problems inherent with massive data gathering while still preserving the robustness of the data and the validity of the comparisons across data points and cases. Yet, in spite of the practical difficulties, we believe that this is an area that deserves further attention from management scholars, both because of the prevalence of the phenomena studied and the consequences it has for many business firms. Finally, a better understanding of the dynamics of minority shareholder protection and the consequences for firm behaviour could serve as a useful platform for public policy modification, a necessary step in many countries that aspire to participate more actively in an increasingly integrated world economy.

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Figure 1: A typology of Family Firms Environments

	Relatively strong legal protection of minority shareholders	Relatively weak protection of minority shareholders
Good family dynamics	<p><u>Rules reinforce family.</u> Effective rules have been incorporated in the governance mechanisms of the company. The firm reaps the benefits by finding easy to retain current minority stakeholders and to attract new ones.</p> <p>BOMBARDIER INC (CANADA)</p>	<p><u>Family replaces law.</u> Family ties substitute legal requirements, but their effectiveness diminishes as the ties become more diffuse. Stability is at risk during unusual events (successions, sale of assets, restructuring, etc)</p> <p>ELECTRODOMÉSTICOS MORAVIA (LATIN AMERICA)</p>
Dysfunctional family	<p><u>Rules replace family:</u> Effective rules act as substitute of the law. The firm can still count on current minority shareholders (typically family members and members of top management team) but does not attract new ones.</p> <p>McCAIN (CANADA)</p>	<p><u>Downhill:</u> Problems in the family are exacerbated by the legal framework. Minority shareholders can be abused, and, as a consequence, are not actively involved in the firm.</p> <p>EL PERIÓDICO DE HOY (LATIN AMERICA)</p>

Figure 2: Integrating Family Firms and Investor Protection: a framework

