Control Structures and Transfer of Control in Family Firms

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To compare the process of this dissertation with a rollercoaster ride would be an understatement, as I faced innumerable ups and downs along the line and was regularly confronted with the question, whether or not I would be able to complete this process after all. On this journey, however, I had several people that supported me and stood by my side.

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St. Gallen, March 2020 Maximilian Groh

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List of Abbreviations

BG	business group
CEO	chief executive officer
EBSCO	online research service with full-text databases
Ed.	editor
Eds.	editors
e.g.	exempli gratia (for example)
et al.	et alii/aliae/alia (and others)
etc.	et cetera
FBG	family business group
FBO	family buyout
fsQCA	fuzzy set qualitative comparative analysis
GDP	gross domestic product
i.e.	id est (in other words; that is)
MAXQDA	software for qualitative and mixed-method data analysis
MBO	management buyout
MBI	management buy-in
N	number of observations (sample size)
p.	page
pp.	pages
QCA	qualitative comparative analysis
SD	standard deviation
SME	small and medium-sized enterprise
vs.	versus

Executive Summary

This dissertation investigates three distinct topics in the field of control structures and transfer of control in family firms. In light of this overarching theme, each of the three papers that constitute this dissertation addresses a specific individual research gap.

The *first paper* takes a closer look at a rather unique form of control structure, namely the phenomenon of family business groups. The growing scholarly attention has led to a wide array of studies on these multicompany networks consisting of legally independent firms that together represent a portfolio controlled by a family. With a multitude of perspectives on the topic, research on family business groups has become rather dispersed. The study offers a comprehensive overview by applying a systematic literature review. Building on the analysis of 91 articles, the paper provides a synthesis of the existing definitions, the significance of family business groups, the various explanations for their emergence and formation, the different structures as well as performance aspects. The study also points out several aspects for future research.

The *second paper* focuses on the taxation of the transfer of control by analyzing cross-national differences with regards to the link between estate taxes and socio-economic factors. The paper conceptualizes estate taxes as a configuration of a multitude of systematically interdependent socio-economic factors, namely the level of entrepreneurship, a country's cultural tendencies as well as the level of wealth inequality. Using data from 54 countries, the study reveals three configurations for high as well as low estate tax levels, respectively, and further discusses six institutional principles upon which societies draw to justify high versus low estate taxes.

The *third paper* addresses a special type of transfer of control in the context of owner-managed firms, namely unexpected successions, which are initiated by the unexpected inability of the owner-manager to continue managing the firm. Applying a comparative multi-case study method, the study builds on a sample of seven owner-managed Swiss firms that were involved in an unexpected succession in the past and were able to successfully manage the transition. The paper develops a novel six-step process for unexpected successions with associated challenges and propositions to facilitate a successful process.

Overall, the dissertation therewith provides valuable contributions to three rather distinct topics in the field of control structures and the transfer of control in family firms.

Zusammenfassung

Diese Dissertation untersucht drei unterschiedliche Themen im Bereich der Kontrollstrukturen und des Kontrolltransfers in Familienunternehmen. Vor dem Hintergrund des übergreifenden Themas widmet sich jede der drei Studien, aus denen diese Dissertation besteht, einer spezifischen und individuellen Forschungslücke.

Die *erste Studie* befasst sich mit einer einzigartigen Form der Kontrollstruktur: dem Phänomen der Familienunternehmensgruppen. Das wachsende wissenschaftliche Interesse hat zu einer Reihe von Beiträgen über diese Multi-Unternehmensnetzwerke geführt. Anhand einer systematischen Literaturübersicht, aufbauend auf der Analyse von 91 Artikeln, bietet die Studie eine Synthese der bestehenden Definitionen, zeigt die Bedeutung von Familienunternehmensgruppen, sowie die verschiedenen Erklärungen für deren Entstehung, und behandelt Struktur- sowie Leistungsaspekte. Darüber hinaus liefert die Studie verschiedene Anregungen für zukünftige Forschung.

Die *zweite Studie* betrachtet die Besteuerung von Kontrollübergaben, indem es die länderübergreifenden Unterschiede im Hinblick auf den Zusammenhang zwischen Erbschaftssteuern und sozioökonomischen Faktoren analysiert. Der Beitrag konzeptionalisiert Erbschaftssteuern als eine Konfiguration einer Vielzahl systematisch voneinander abhängiger sozio-ökonomischer Faktoren, wie dem Niveau des Unternehmertums, der kulturellen Tendenzen sowie der Vermögensungleichheit eines Landes. Anhand der Daten von 54 Ländern präsentiert die Studie je drei Konfigurationen für hohe bzw. niedrige Erbschaftssteuern und zeigt sechs institutionelle Prinzipien, auf die sich Gesellschaften stützen, um Erbschaftssteuern zu rechtfertigen.

Die *dritte Studie* befasst sich mit einer besonderen Art der Übertragung von Kontrolle im Kontext inhabergeführter Unternehmen, nämlich mit unerwarteten Nachfolgen. Unter Anwendung einer vergleichenden Multi-Fallstudien-Methode analysiert die Studie sieben eigentümergeführte Schweizer Firmen, die in der Vergangenheit mit einer unerwarteten Nachfolge konfrontiert waren und diese erfolgreich bewältigen konnten. Die Studie entwickelt ein sechsstufiges Prozessmodell für unerwartete Nachfolgen mit den damit verbundenen Herausforderungen und Vorschlägen, um einen erfolgreichen Prozess zu erleichtern.

Insgesamt liefert die Dissertation wertvolle Beiträge zu drei unterschiedlichen Themen im Bereich der Kontrollstrukturen und des Kontrolltransfers in Familienunternehmen.

1 Introduction

1.1 Overarching Topic and Structure

Often praised as the backbone of the economy, family firms, accounting for roughly 70% to 90% of all firms worldwide (Zellweger, 2017), face tremendous challenges with regards to their continuous development and ambition for transgenerational success. Despite their prominence across the globe, family firms face slim odds when it comes to their survival over generations with only around 13% of family businesses managing a successful transition into the third generation (Ward, 2011). Family firms are thus forced to develop strategies and improve control structures to better manage these challenges and facilitate a successful transition of control to ensure transgenerational continuity (Hartley & Griffith, 2009; Ward, 2011; Zellweger, 2017). This cumulative dissertation investigates three specific aspects of family firms with regards to control structures and the transfer of control from one generation to the next: (1) the phenomenon of family business groups as a particular form of control structure, (2) the transfer of control with regards to estate taxes, and (3) control transfers after an unexpected event.

The *first paper* of this doctoral thesis explores the phenomenon of family business groups as a type of control structure. In the recent past, family business literature has given more attention to the wealth creating abilities of families, successfully managing a network of businesses over many generations, developing their portfolios into so-called family business groups (see Landes, 2008; Zellweger, Nason, & Nordqvist, 2012). These business groups have shown to play a significant role in most countries by having a strong influence on the economic development and controlling significant shares of a country's productive assets (Amsden & Hikino, 1994; Khanna & Palepu, 2000a; Kock & Guillén, 2001; Mahmood, Zhu, & Zajac, 2011). With the phenomenon of family business groups offering insight into how family firms and particularly entrepreneurial families facilitate growth and transgenerational success, the first paper investigates this rather complex control structure. Applying a systematic literature review, the paper presents a comprehensive overview with respect to the various characteristics and features of family business groups.

The *second paper* addresses the transfer of control with regards to estate taxes. Apart from establishing and managing control structures, family firms face tremendous challenges when it comes to the transfer of control and their transgenerational development, with succession being the preeminent challenge in the life-cycle of a family firm (Shin, 2017; Zellweger, 2017). While families hope to maintain transgenerational control over their estate (Carney, Gedajlovic, & Strike, 2014; Zellweger, Kellermanns, Chrisman, & Chua, 2012), many countries impose a tax on business inheritances interfering with the intergenerational transfer of assets. With estate taxes that can reach up to 80%, these tax burdens may vary in their impact on the transfer of control from one generation to the next and thus the survival of the family firm (Carney et al., 2014; Yakovlev & Davies, 2014). With significant cross-country variations of estate taxes, paper two investigates how entrepreneurial activity and business ownership can explain the presence or absence of estate taxes in conjunction with other socio-economic factors such as countries' culture and wealth inequality.

The *third paper* of this cumulative dissertation explores a specific challenge associated with the transfer of control by investigating what happens, if an owner-manager is unexpectedly unable to continue managing the business. While a transfer of control already entails tremendous risk with regards to the future of the business, unexpected successions elicit even more uncertainty. While it is estimated that more than every tenth succession occurs unexpectedly (Hauser, Kay, & Boerger, 2010; Mandl, Dörflinger, & Gavac, 2008), only a handful of studies has looked into the phenomenon of unexpected succession, largely neglecting the underlying processes. To contribute to a better understanding of unexpected succession, paper three takes an inductive approach to study the challenges arising from the sudden inability of owner-managers to continue the business and develops a process model detailing the process steps of an unexpected succession.

After having presented the focal topics of this dissertation, the following sub-chapters introduce the papers by providing an overview of the different research gaps as well as methodological approaches and summarizes key characteristics of each study. Chapters two to four then present the individual papers before chapter five concludes the dissertation by elaborating on the contributions to theory and practice, the associated limitations and future research directions, before closing with final remarks on the doctoral thesis. The following Table 1 illustrates this dissertation structure.

Table 1: Dissertation structure

Chapter 1	**Introduction** - Overarching topic and structure - Research gaps - Methodological preview - Overview of papers
Chapter 2	**Paper 1: Family Business Groups – Current Research and Future Directions**
Chapter 3	**Paper 2: Estate Taxes and Business Transfers Across the Globe: A Configurational Analysis**
Chapter 4	**Paper 3: Sudden Death – Unexpected Succession in Owner-Managed Firms**
Chapter 5	**Concluding chapter** - Contributions to theory & practice - Limitations and future research - Conclusion

1.2 Research Gaps

Despite the common overarching topic of the dissertation, the individual papers all address very specific research gaps in the literature on the topic of control structures and the transfer of control in family firms, which are presented hereafter.

The *first paper* of this cumulative dissertation takes a closer look at business groups, and more specifically family business groups, to investigate these rather special control constellations, where legally independent multicompany networks represent a portfolio controlled by a family (Almeida & Wolfenzon, 2006; Granovetter, 1995, 2005; Khanna & Palepu, 2000a, 2000b; Khanna & Rivkin, 2001; Morck, 2009; Morck & Yeung, 2003). In recent years, families controlling such groups and in particular their wealth creating abilities over generations have received growing scholarly attention. Research on the topic, however, is rather dispersed and focuses on specific aspects of the phenomenon, restricting their contributions to the respective contextual settings. Previous studies, for instance, have mainly focused on business groups and family business groups in the context of developing markets (Chang, 2003; Granovetter, 1995), partly neglecting their ubiquity and presence in Western developed countries. Further, there exists a multitude of explanations with regards to their emergence and formation, based in a wide spectrum of different theories. Similarly, concerning their structure and performance, several studies exist that have approached the topic (see Khanna & Rivkin, 2001; Ng, Teh, Ong, & Soh, 2014), but a comprehensive overview of the different aspects of the phenomenon is still missing. The first paper thus aims at providing more clarity and a focused literature review on family business groups and tries to shed light on potential directions for future studies in the field. The paper thus tries to answer the questions: What is the current status on the research on family business groups and what are potential research gaps that should be addressed in the future?

Paper two investigates a specific aspect of the transfer of control, namely the taxation of inheritances in the context of business transfers. As many entrepreneurs are deeply concerned about the preservation of the wealth they have created (Dehlen, Zellweger, Kammerlander, & Halter, 2014; Kammerlander, 2016) and often hope to maintain family control over their estate (Carney et al., 2014; Zellweger, Kellermanns, Chrisman, et al., 2012), estate taxes interfere with the intergenerational transfer of assets. Although past research in the field has studied the consequences of estate taxes, for instance with regards to its impact on investments (Ellul, Pagano, & Panunzi, 2010) or the survival of private (family) firms (Carney et al., 2014; Yakovlev & Davies, 2014), most studies have mainly focused on the implications of estate taxes for entrepreneurs, while little research has looked at how entrepreneurial activity and business ownership can explain the presence or absence of estate taxes in conjunction with other socio-economic factors. Building on institutional theory, and more specifically institutional polycentrism, which suggests that the combination of multiple institutions has qualitatively different effects on outcomes than a single institution (Batjargal et al., 2013), paper two conceptualizes estate taxes as a configuration of a multitude of systematically interdependent socio-economic factors. To contribute to our understanding about the link between estate taxes and socio-economic factors as well as our understanding of international variations in estate taxes on business inheritances, paper two addresses the following research question: What shapes cross-national differences with regards to the link between estate taxes and socio-economic factors?

The *third paper* of this cumulative dissertation investigates the phenomenon of unexpected business successions in owner-managed small- and medium-sized enterprises (SMEs), meaning the transitions of control that are initiated by the sudden and unforeseen inability of the owner-manager to continue managing the business. Although it is estimated that more than every tenth business succession is initiated unexpectedly, our understanding of the phenomenon and in particular the process of unexpected succession is limited. Existing studies have mainly focused on the quantitative effects of a sudden death or a hospitalization of a CEO or director on firm performance (see Bennedsen, Pérez-González, & Wolfenzon, 2006, 2012) or changes in stock prices (see Johnson, Magee, Nagarajan, & Newman, 1985; Nguyen & Nielsen, 2010; Salas, 2010). These studies, however, give only limited insight for the context of owner-managed firms, as a CEO's sudden departure significantly differs from that of an owner-manager, who is simultaneously involved in management and ownership. Additionally, existing research also largely neglects the process underlying unexpected successions. While there exist a multitude of process models for planned successions (see Halter & Schröder, 2017; Le Breton-Miller, Miller, & Steier, 2004; Zellweger, 2017), these models have only limited applicability to unexpected successions as there are several fundamental differences, such as the absence of the incumbent in the process or the lack of a structured transition of control. The third paper thus focuses on the following research question: How does the process of an unexpected succession unfold and how can it be successfully managed?

1.3 Methodological Preview

In addition to focusing on different aspects of control structures and the transfer of control in family firms, all three papers utilize different methodological approaches, covering a systematic literature review, quantitative and qualitative methods.

The *first paper* applies a systematic literature approach following a five-step process in order to identify and select the articles and studies for the review, assuring the coverage of all relevant and important literature. 91 articles in 43 journals were selected for the review of the current status quo of the research conducted on family business groups. Following the data collection, I analyze and then synthesize the articles using a descriptive approach as recommended by Pittaway and Cope (2007) to develop a comprehensive overview of family business groups. In the synthesis, I focus on the various existing definitions of family business groups, their significance, their emergence and formation, as well as structures and performance aspects.

Paper two applies a fuzzy-set qualitative comparative analysis (fsQCA; Ragin, 2009) to disentangle the complex interdependencies among the socio-economic factors and use novel estate tax data from 54 countries, which were hand-collected via policy capturing (e.g., Connelly, Ketchen, Gangloff, & Shook, 2016) using a uniform case vignette sent to 77 tax experts from a global accounting firm. Using a set-theoretic approach based on fsQCA (Ragin, 2009) allows to identify specific configurations of factors leading to a defined outcome and is well suited for small sample studies (Crilly, Zollo, & Hansen, 2012). We develop a number of configurational patterns consisting of socio-economic factors that were associated with either high or low estate tax levels. These configurational patterns were the basis for our analysis.

The *third paper* applies an exploratory qualitative research approach (Miles & Huberman, 1994; Yin, 1994) and more specifically, follows a comparative multi-case study method (Eisenhardt, 1989) to study the phenomenon of unexpected succession and to develop a process model in the context of owner-managed small- and medium-sized businesses. The study builds on a sample of seven owner-managed Swiss firms that were involved in an unexpected succession in the past and were able to successfully manage the transition. In total, 14 semi-structured interviews were conducted, while for each firm the successor, as well as one other individual that was closely involved in the process, were interviewed. To analyze the data, I utilized qualitative content analysis.

1.4 Overview of Papers

Table 2: Summary of the dissertation papers

Paper 1: Family Business Groups – Current Research and Future Directions	
Research Question	What is the current status on the research on family business groups and what are potential research gaps that should be addressed in future research?
Research Gap	Research on family business groups is variegated but focuses on specific aspects of the phenomenon, restricting the contributions to the respective contextual settings. For instance, family business groups are mainly studied in the context of developing countries, despite their ubiquity in developed environments. There further exists a multitude of explanations for their emergence, but a comprehensive overview of the phenomenon is missing.
Main Constructs	Family business groups; Control structures in family firms; Dynastic family firms; Transgenerational wealth creation
Methodology & Sample	Systematic literature review; synthesis of 91 articles in 43 journals of finance, management as well as family business.
Findings	Synthesis of various definitions in current literature; importance of the prominence of family business groups not only in developing but in developed economies, going beyond the institutional voids theory as the dominant theoretical explanation for their emergence. Providing summarizing information on the various structures of family business groups as well as performance aspects.
Contribution	Extending literature on family business groups by contributing to a more holistic understanding of the phenomenon by providing an overview of the main characteristics regarding definitions, reasons for their emergence and formation, structural differences and performance aspects.
Authorship	Maximilian Groh

Paper 2: Estate Taxes and Business Transfers Across the Globe: A Configurational Analysis	
Research Question	How do entrepreneurial activity and business ownership in conjunction with other socio-economic factors shape cross-national differences in estate taxes?
Research Gap	Missing understanding and systematic analysis of what shapes cross-national differences in estate taxes, due to prior research mostly focusing on dyadic relationships between estate taxes and other factors.
Main Constructs	Transfer of control in family firms; Estate and inheritance taxes; Entrepreneurial activity and business ownership; Cultural individualism and long-term orientation; Wealth inequality
Methodology & Sample	Fuzzy-set Qualitative Comparative Analysis (fsQCA); Dataset of 54 countries
Findings	Six distinct configurations of country-level entrepreneurial activity, business ownership, wealth inequality as well as cultural orientation towards individualism and the long term, which explain the presence of high or low estate taxes, and theorize around the institutional principles upon which societies draw to justify these estate taxes.
Contribution	Contribution to a more nuanced understanding of the drivers of international variation in estate taxes and the particular role of entrepreneurs and business owners therein.
Authorship	Maximilian Groh; Christine Scheef; Thomas Zellweger

Paper 3: Sudden Death – Unexpected Succession in Owner-Managed Firms	
Research Question	How does the process of an unexpected succession unfold in the context of small- and medium-sized owner-managed firms? What are the challenges associated with the unexpected successions and what are potential strategies to facilitate a successful process?
Research Gap	Missing understanding of unexpected succession and in particular the underlying process.
Main Constructs	Transfer of control in family firms; Unexpected succession; Owner-managed SMEs
Methodology & Sample	Qualitative analysis, multi case study methodology based on 14 interviews with individuals of 7 owner-managed SMEs in Switzerland
Findings	Development of a 6-step process model depicting the process of unexpected successions, which greatly differs from existing models on planned succession; for each step associated challenges and possible strategies for a successful succession are presented.
Contribution	Extending the understanding of unexpected succession and thus, contributing to the literature on organizational resilience and research on succession that has largely neglected the process of the phenomenon; further contribution to existing quantitative papers looking at the effect of unexpected successions on performance and firm value by adding a qualitative process perspective.
Authorship	Maximilian Groh

2 Family Business Groups – Current Research and Future Directions

Maximilian Groh

2.1 Abstract

The main objective of this paper is to provide an overview of the growing research on family business groups and to identify research gaps that should be addressed in future studies. There has been a growing stream of research focusing on the phenomenon of tremendously successful business families that accumulated their wealth over generations by constantly developing and managing a portfolio of assets into a so-called family business group. Following a systematic literature review covering 91 influential articles in journals of finance, management as well as family business, the study provides a comprehensive overview of the phenomenon of family business groups. The review presents a synthesis of the existing definitions, addresses the significance of family business groups, presents the various theoretical approaches regarding their emergence, and discusses their structural as well as their performance aspects that characterize them. Additionally, the study reveals potential directions for future research, emphasizing a need to focus on the prominence of family business groups in developed economies, going beyond the institutional voids theory as the dominant theoretical explanation for their emergence. Furthermore, while the family business literature needs to be included in the discussion of family business groups, as it offers valuable arguments in various contexts, the agency theoretical approaches might need to be revisited, especially in relation to the structural aspects of family business groups.

2.2 Introduction

The research on business groups takes a closer look at legally independent multicompany networks that are bound together by formal and/or informal ties (Almeida & Wolfenzon, 2006; Granovetter, 1995, 2005; Khanna & Palepu, 2000a, 2000b; Khanna & Rivkin, 2001; Morck, 2009). A family business group in this sense consists in most cases of several, often publicly traded companies that in sum represent the portfolio controlled by a family (Morck & Yeung, 2003). In recent years, families controlling such groups and in particular their wealth creating abilities have received growing scholarly attention. While previous studies in family business strongly focused on the one family firm, the main interest in the field of family business groups focuses on the development of the family and their portfolio of investments and controlled assets (see Landes, 2008; Zellweger, Nason, et al., 2012). This shift in perspective from the firm-level to the ownership- and family-levels is particularly relevant since the phenomenon of the evolvement of family dynasties and business groups seemingly defies the common perceptions with regards to the slim odds of transgenerational success (Ward, 2011).

Even though Strachan (1976) and Leff (1978) already approached the subject of family business groups in the seventies, there has been a recent increase in academic publications that emphasize the rising importance of the topic and its theoretical and practical significance (Almeida & Wolfenzon, 2006; Carney, Gedajlovic, Heugens, Van Essen, & Van Oosterhout, 2011; Manikandan & Ramachandran, 2015; Morck, 2005; Zellweger, Nason, et al., 2012). The different streams of literature approaching the topic, however, focus on rather specific aspects of the phenomenon and are therefore restricted to their respective context. For instance, despite the ubiquity of business groups around the world and their presence in Western countries, the majority of publications studies business groups in the context of developing markets, emphasizing the institutional voids theory. Other studies further focus on the negative agency theoretical aspects of family business groups by addressing the potential for expropriation of minority shareholders and tunneling, while disregarding their longevity and value-adding potential. In sum, the growing scholarly attention, the rather fragmented focus of research as well as the isolated contextual settings of existing studies motivates and warrants the approach of this paper.

The study's main goal is to provide more clarity and a focused overview of the family business groups literature, in order to conclude the main findings of the rather wide and dispersed area of research and present potential gaps for further projects in this field of study. Presenting the existing perspectives on the topic, the study focuses on the various existing definitions, the significance and role of family business groups around the world, the many explanations for their emergence and formation, as well as structural aspects by discussing a more ownership and control-based view to look at the connection between structure and different agency problems. Lastly, I address the performance aspect of these kinds of organizational forms before concluding the findings and revealing suggestions for future research and gaps that need more scholarly attention.

2.3 Methodology

The methodology of this paper follows a systematic literature approach which thrives for a reproducible procedure where the results can be replicated by following the same steps as the reviewer (see Pittaway & Cope, 2007). According to Tranfield, Denyer, and Smart (2003) the systematic literature review therefore surpasses a narrative approach in that it is more thorough and achieves a higher scientific rigor, since the reviewer bias is minimized.

In this paper, I follow five steps in order to identify and select the articles and studies for the review, assuring the coverage of all relevant and important literature. The process was designed as follows. In a first step, I created a list containing the most relevant journals in the fields of management, entrepreneurship, finance and family business. In this step, I only focused on leading peer-reviewed academic journals. In order to broaden the search field and to include all relevant literature, I extended the list by adding journals of related disciplines or lower rankings that I regarded as especially important for the subject.

In a second step, I defined keywords for the systematic search. Since this paper aims at giving an overview of the status quo on research about family business groups, the search string focused on the presence of the keyword "business group*". The asterisk indicates that the search string included the singular form of "group" as well as the plural form "groups". With this search string, I included all results that either focused on business groups in general or family business groups in particular. This was necessary, as there is a considerable overlap between research on business groups and family business groups, as many studies on business groups implicitly address family business groups as well. It is therefore necessary to first understand the business groups literature in order to delve into the family-specific aspects of the phenomenon.

After a first search, it became clear that by only including the titles of articles, as recommended by Pittaway and Cope (2007), the search was too narrow, since many articles about business groups or family business groups did not include these terms in their title. Therefore, I extended the search to include the titles as well as the abstracts of the articles. Using the database EBSCO, I identified 152 articles and added them to the dataset. Duplicates were deleted. After analyzing the titles and abstracts, I eliminated irrelevant articles from the list. I excluded studies that fitted the selection criteria, but did not fulfil the aim of this paper. In most of these cases the word "business group" was used in a different context, the focus of the study only marginally touched the subject or the article was considered too old—for example McCulloch (1982) who focuses on indexation proxies and mentions business groups simply as a factor that could have had an influence on the topic. Using a more narrative approach, I extended the list of identified articles by exploring the references of selected articles and additionally using Google Scholar in order to find other relevant studies about business groups. I therefore included also articles from lower ranked journals. Furthermore, I selected key authors in order to find relevant articles written by them that were not yet included in the list.

By following this search procedure, I identified 91 articles in 43[1] journals and should thus have selected the articles and studies that represent the current status quo of the research conducted on business groups and family business groups. In the following, I analyzed the articles and then synthesized using a descriptive approach as recommended by Pittaway and Cope (2007).

2.4 Definitions

Despite the fact that research on business groups has continuously developed over the last decades, researchers have not yet come to a conclusion about a general definition for the phenomenon (Cuervo-Cazurra, 2006; Khanna & Rivkin, 2001; Ng et al., 2014). This is in part closely linked to the varying forms, structures, sizes, degrees of diversification and geographical differences between business groups that make it difficult to find generalizable characteristics (Cuervo-Cazurra, 2006). Depending on their country of origin, there even exist various different names ranging from the Japanese “Keiretsu” and “Zaibatsu”, Chinese “Quiye Jituan”, South Korean “Chaebols”,

[1] The following journals were included (in parenthesis you find the number of articles in the respective journal): Academy of Management Journal (6), Academy of Management Proceedings (2), Academy of Management Review (1), Administrative Science Quarterly (1), American Economic Review (3), American Journal of Sociology (1), American Sociological Review (2), Annual Review of Sociology (1), Asia Pacific Journal of Management (4), British Journal of Management (2), California Management Review (1), Cambridge Journal of Economics (1), Economic Development and Cultural Change (1), Economica (1), Entrepreneurship: Theory and Practice (6), European Economic Review (1), Family Business Review (4), Harvard Business Review (1), Industrial and Corporate Change (3), International Business Management (1), International Business Review (1), International Journal of Political Economy (1), Journal of Comparative Economics (1), Journal of Corporate Finance (1), Journal of Economic Literature (2), Journal of Family Business Strategy (1), The Journal of Finance (5), Journal of Financial Economics (7), Journal of Industrial Economics (2), Journal of International Business Studies (1), Journal of Management (1), Journal of Management Studies (3), Journal of Political Economy (1), Journal of the Operational Research Society (1), Journal of World Business (1), Management Science (3), Money and finance in economic growth and development (1), Organization Science (3), Pacific-Basin Finance Journal (1), The Review of Financial Studies (4), Strategic Management Journal (5), Tax Policy and the Economy (1), World Development (1).

to the Latin American "Grupos Economicos" (Carney et al., 2011; Chang, 2003; Gerlach, 1992; Keister, 2000; Strachan, 1976).

One of the earliest definitions was presented by Leff in 1978, who defined a business group as a "multicompany firm which transacts in different markets but which does so under common entrepreneurial and financial control" (Leff, 1978, p. 663). Granovetter (1995) later refined this view by stating that business groups are "sets of legally separate firms bound together in persistent formal and/or informal ways" (Granovetter, 1995, p. 95). According to Khanna and Rivkin (2000, 2006) and Mahmood et al. (2011) these ways or ties range from informal or social ties (i.e., family, friendship, religion, language, and ethnicity) to formal economic arrangements such as commonly held ownership stakes, individual dominant owners or equity cross holdings, director interlocks, and buyer-supplier agreements (see Chittoor, Kale, & Puranam, 2015; Guillén, 2000; Khanna & Palepu, 2000b; Lincoln, Gerlach, & Ahmadjian, 1996; Morck, 2009). Some researchers go even further in their definition, as Strachan (1976), Granovetter (1995, 2005) and Mahmood et al. (2011), for instance, attribute these constellations a persistent and long-term view, while Leff (1978) as well as Manikandan and Ramachandran (2015) add that the firms of a business group operate in different markets and industries, adding the aspect of diversification. For Manikutty (2000) and Yabushita and Suehiro (2014) the diversification is even a prerequisite, where Khanna and Yafeh (2007) also emphasize their presence in multiple industries.

However, looking at the different approaches of past researchers to identify a definition of business groups, there appear to be some aspects that characterize business groups apart from their numerous variations. There are three characteristics that appear in most of the existing definitions: (1) *A business group is seen as a multicompany network or a set of two or more firms, which are* (2) *legally independent and* (3) *bound together by formal and/or informal ties* (Almeida & Wolfenzon, 2006; Chittoor et al., 2015; Granovetter, 1995, 2005; Guillén, 2000; Khanna & Palepu, 2000a; Khanna & Rivkin, 2001; Leff, 1978; Mahmood et al., 2011; Manikandan & Ramachandran, 2015; Morck, 2009).

In light of these characteristics, business groups combine certain attributes of holding companies, multidivisional corporations, and conglomerates, building a network form of organizations (Mahmood et al., 2011; Nohria & Eccles, 1992; Podolny & Page, 1998). Business groups, however, differ from these organizational forms in that they are more stable and more coordinated, while seemingly being less centralized (Granovetter, 1995). In a conglomerate, for instance, the businesses often act in different and unrelated industries, while at the same time the annual reports have to be consolidated into one (Khanna & Rivkin, 2001). In most cases, there further is one focal firm that acts as a mother company (Rose & Glorius-Rose, 2001), which is usually not the case in business groups.

In most cases, business groups are controlled by families (Chang & Hong, 2000; Mahmood & Mitchell, 2004), forming the specific term of the so called family business group (Bertrand, Johnson, Samphantharak, & Schoar, 2008; Ng et al., 2014). Extending the characteristics of business groups, this type of organizational form differs along a number of aspects, but most importantly the involvement and role of the family, exercising control over the business group through formal and/or informal ties (Yildirim-Öktem & Üsdiken, 2010).

With regards to the formal ties, ownership is seen as significant factor, through which the family exercises control over the various companies of the business group (see Almeida, Park, Subrahmanyam, & Wolfenzon, 2011; Bertrand et al., 2008). There are, however, differing views concerning the minimum ownership stake a family should hold, in order to categorize the group as family business group. While some authors simply see the family as the ultimate owner (Bertrand et al., 2008) or use a more general approach by focusing on the family's impact on strategic decisions (Chung, 2014), others define specific thresholds. Ng et al. (2014), for instance, see a minimum ownership threshold of 20% of the shares as a prerequisite, whereas Bae, Kang, and Kim (2002) define a threshold of 30% as necessary. Morck and Yeung (2003), to name another perspective, emphasize the controlling role of the family, which in their opinion is only granted, if the family has a minimum of 51% of voting rights in any of the companies associated with the business group. In addition to ownership related formal ties, many families further execute their control through positions in the management or executive board of major companies in the group (Cuervo-Cazurra, 2006).

Apart from formal aspects, a special emphasis lies on the informal ties that bound the different organizations together. In most cases, these informal ties consist of social relations that are especially strong in the family context (Chung, 2013; Chung & Chan, 2012; Yiu, Lu, Bruton, & Hoskisson, 2007). The social ties and kinship facilitate economic transactions by creating trust (Granovetter, 2005; Khanna & Yafeh, 2007;

Leff, 1978), which positively impacts intra-business group coalitions (Chung & Chan, 2012) and is especially strong when established through family ties (see also Zellweger, Kellermanns, Eddleston, & Memili, 2012). It furthermore enables the affiliates to take coordinated actions (Khanna & Rivkin, 2001). Strachan (1976) points out that such ties are in most cases overlapping, meaning that they exist on multiple levels (i.e., personal ties, common background, family ties, etc. in combination with other, for example formal ties) making them a robust construct forming group relations and patterns that are increasingly robust.

To summarize, the heterogeneous characteristics of business groups and family business groups around the world have led to a host of approaches to define them. Despite the multitude of characteristics three aspects seem to be commonly agreed upon. (1) A business group is seen as a multicompany network or a set of two or more firms, which are (2) legally independent and (3) bound together by formal and/or informal ties. As such, business groups and family business groups combine attributes of other forms of organizations, namely conglomerates or multidivisional corporations, but differ with regards to their stable and coordinated nature and the specific ties. These ties, keeping the construct together, seem to be especially strong in family business groups where the involvement of the family to exercise control plays a significant role.

2.5 Significance of Family Business Groups

Against the assumption of the widely-held firm formed by Berle and Means (1932), the prevalence of (family) business groups as a dominant ownership type around the world is uncontested, especially in developing countries (Chang, 2003; Granovetter, 1995). The growing body of research on the subject of business groups has thus emphasized the “great theoretical and practical import” of this phenomenon (Carney et al., 2011; Manikandan & Ramachandran, 2015).

(Family) business groups play an important role, dominate the economies of most countries and have a strong influence on the economic development, since in many cases they control significant shares of a country’s productive assets (Amsden & Hikino, 1994; Khanna & Palepu, 2000a, 2000b; Kock & Guillén, 2001; Mahmood et al., 2011). Morck and Yeung (2003) illustrate this argument with several examples where family business groups are responsible for a significant portion of a country’s GDP. The Noboa family and its family business group, for instance, which is responsible for employing almost a third of Ecuador's population, accounts for 5% of the country's GDP. Other studies paint a similar picture for European or Asian countries (Almeida et al., 2011; Barca & Becht, 2001; Claessens, Djankov, & Lang, 2000; Fogel, 2006). Claessens et al. (2000), for example, find that in their sample of 2'980 corporations in nine East Asian countries, the largest families control significant percentages of their country's market capitalization. According to their findings, the top ten family business groups control 52.2% of the market capitalization in the Philippines, 57.7% in Indonesia, 46.2% in Thailand, 36.8% in Korea, 32.1% in Hong Kong and come to similar numbers for Malaysia (24.8%), Singapore (26.6%) and Taiwan (18.4%) (Claessens et al., 2000). Furthermore, the authors also investigate the share of a country's GDP for which the top 15 family business groups are responsible. For eight of the nine countries they studied, these percentages were impressive with a staggering 84.2% in Hong Kong, 76.2% in Malaysia, 48.3% in Singapore, 46.7% in the Philippines, 39.3% in Thailand, 21.5% in Indonesia, 17% in Taiwan and 12.9% in Korea (Claessens et al., 2000)[1]. These results overwhelmingly illustrate the significance of family business groups around the world.

Even though business groups are mostly studied in the context of emerging economies where their formation is seen as a result of government actions (Claessens et al., 2000) or a reaction to poorly developed regulatory contexts and therefore form the socioeconomic landscape (Chittoor et al., 2015; Khanna & Rivkin, 2001; Khanna & Yafeh, 2007; Mahmood et al., 2011; Yiu et al., 2007), business groups are one of the most common organizational forms around the world, and thus play an important role in developed economies as well (Chung & Chan, 2012; Yiu et al., 2007). La Porta, Lopez-de-Silanes, and Shleifer (1999) show that—apart from the common law countries with good shareholder protection, such as the United States and the United Kingdom—in a majority of the 27 developed and developing countries they investigated, companies had a controlling owner, with 26% of them structured in ways that were typical for business groups. In most cases, these business groups were controlled by a few wealthy families. Collin (1998), who studied business groups in Sweden, shows that the Swedish economy is mainly controlled by two large business groups: The Wallenberg family and the Handelsbank Group which together controlled 52% of the stock value of all the listed corporations in Sweden in 1995 (Collin, 1998). There are other examples, such as

[1] In a later study on 1'301 publicly traded corporations in eight Asian countries, Claessens, Djankov, Fan, and Lang (2002) find that in 70% of the analyzed firms, the family was the largest shareholder.

Kosenko and Yafeh (2010), who provide evidence for the prominence of business groups in contemporary Israel or Zellweger and Kammerlander (2014), who investigated business groups in Germany. The latter revealing that the 100 richest families in Germany control annual sales of more than 400 billion euros (Zellweger & Kammerlander, 2014). Furthermore, a study conducted by Masulis, Pham, and Zein (2011) reveals that in their sample of 28’635 firms from 45 different countries, 19% of all firms were affiliated with a family business group. Focusing only on developing countries this number rose to 40%.

In conclusion, business groups and family business groups are prominent around the world. Even though they are mainly studied in the context of emerging economies, their prevalence and ubiquity are not limited to developing countries. While there might be differences concerning their emergence and existence when comparing them in different contexts (see chapter on emergence & formation), many studies show that business groups and especially family business groups account for significant shares of the productive assets of emerging as well as developed countries.

2.6 Emergence & Formation of Business Groups

Numerous studies offer a wide range of explanations on how and why business groups emerge (e.g., Amsden & Hikino, 1994; Ghemawat & Khanna, 1998; Granovetter, 1994; Guillén, 1997; Khanna & Palepu, 1997, 2000a; Leff, 1976, 1978; Strachan, 1976). The reasons are grounded in several theoretical bases, reaching from institutional or market failure theory, agency theory to resource-based and social capital theory. Hereinafter, I present an overview of the different approaches.

2.6.1 Institutional Voids and Transaction Cost Theory

One of the most common explanations for the emergence of business groups, especially in developing economies, lies in the *institutional* or *market failure theory*. From this perspective, business groups are seen as a response to imperfect markets and poorly developed institutional contexts—therefore also called institutional voids theory (Chang & Hong, 2000; Chittoor et al., 2015; Chung, 2004; Clague, 1997; Coase, 1998; Keister, 1998, 2001; Khanna & Palepu, 2000a, 2000b; Khanna & Rivkin, 2001; Khanna & Yafeh, 2007; Lee, Peng, & Lee, 2008; Mahmood & Mitchell, 2004; North, 1990). According to this perspective, business groups emerge as a reaction to market inefficiencies, such as imperfect factor markets, limited enforcement of contracts or inadequate rule of law that all create high transaction costs (Granovetter, 2005; Khanna & Palepu, 1997; Khanna & Yafeh, 2007), by developing group internal relationships and markets. Concurring with *transaction cost theory*, the formation of business groups is therefore viewed in these contexts to internalize business transactions in the absence of reliable trading partners or an enforced legal framework to allow efficient transactions between unaffiliated partners (Carney et al., 2011; Chang & Hong, 2000; Chung, 2004; Khanna & Palepu, 1997; Leff, 1978). The facilitation of transactions is supported by the creation of trust, which is especially significant in family business groups (Granovetter, 2005; Khanna & Yafeh, 2007).

The development of internal markets is not only restricted to financial or capital markets but is rather applicable to other factor markets as well (Chung, 2013; Fogel, 2006; Khanna & Palepu, 2000b; Khanna & Rivkin, 2001). This includes, for instance, product and labor markets (Clague, 1997; Coase, 1998; Leff, 1978), in the sense that affiliated firms can profit from an internal talent pool.

Additionally, recent advancements to study business groups in terms of their effect and influence on innovation, depict business groups as paragons (see Belenzon & Berkovitz, 2010; Mahmood & Mitchell, 2004). Mahmood and Mitchell (2004) studied this topic in the context of emerging markets by taking a closer look at South Korea and Taiwan. Their study reveals that business groups are able to overcome institutional voids by providing an institutional infrastructure that facilitates innovation. Belenzon and Berkovitz (2010) addressed the topic using data on European firms and found that organizations affiliated with a business group are more innovative than non-affiliates. They explain their findings by basing them on the internal market theory and reveal that regarding innovation, group affiliation is especially important in industries that usually depend on external financing. They also studied the effect in relation to knowledge spillovers but couldn’t find convincing evidence and came to the conclusion that group affiliates have mostly different research focuses due to the diversification of the group (Belenzon & Berkovitz, 2010).

2.6.2 Governmental Perspective

When talking about the institutional framework and the significance or ubiquity of (family) business groups in Asian countries, the role of the government as an initiator or a promoter of such organizational forms seems to play an important role. Closely connected to the institutional voids theory presented above, a governmental perspective depicts the government as an active part in the emergence of business groups. According to Chung (2004), business groups in Japan and Korea are to some extent the products of governmental industrialization programs to overcome institutional voids. During the early stages of the nation's economic development, the government supported specific entrepreneurs in establishing internal markets in order to facilitate and accelerate the industrialization process (Chung, 2004). Likewise, Claessens et al. (2000) conclude from previous studies that business groups in East Asia achieved their power and status from the privileges which they solicited from their governments. These privileges include, for instance, permitting exclusive exporting or importing rights, providing government contracts, allowing a monopoly status of the group as well as protecting it from foreign competitors. The resulting business groups mobilized resources and started new ventures to consequently gain more and more market power (Chung, 2004). Luo and Chung (2005) as well as Banalieva, Eddleston, and Zellweger (2015) further investigated the performance effects of pro-market reforms in transitioning economies. Banalieva et al. (2015) find that gradual pro-market reforms have a positive impact on performance due to the slow liberalization of the markets. Additionally, their findings suggest that family firms have an advantage over non-family firms in gradually reforming Chinese provinces.

Since weak institutional frameworks and inefficient factor markets mostly appear in emerging economies, the institutional voids theory, the transaction cost theory as well as the governmental perspective are the predominant explanations for the emergence of business groups in developing countries. Early research (see Strachan, 1976) drew the conclusion that with an improving institutional context of a country, the prevalence of business groups would deteriorate. However, there is a growing body of research that provides evidence that business groups and family business groups have prospered across the globe in contempt of an improving institutional environment (see also Carney, Van Essen, Estrin, & Shapiro, 2018). Lamin (2013), Siegel and Choudhury (2012) as well as Chittoor et al. (2015) show in their studies on Indian business groups that despite an improving institutional context, business groups have strived. More specifically, Siegel and Choudhury (2012) not only find an increase in size but also diversification, while Lamin (2013) points at the short-term information advantages of affiliates that fosters market opportunity recognition in an institutionally developed environment.

Kosenko and Yafeh (2010) add that the existence of business groups in contemporary Israel cannot, in light of its highly developed institutional framework, be explained by the institutional voids theory. Other studies have come to similar conclusions for the case of Europe. Collin (1998), for example, offers further evidence for the case of Sweden, while Zellweger and Kammerlander (2014) show the prominence of business groups in Germany. In light of these observations, group affiliation must offer further benefits in the context of developed economies, such as positive effects on innovation or greater growth opportunities of affiliates (Belenzon & Berkovitz, 2010; Manikandan & Ramachandran, 2015), which make it necessary to look beyond the institutional voids theory and address alternative theoretical approaches and perspectives on the topic.

2.6.3 Agency Theory, Expropriation of Minority Shareholders and Coinsurance Theory

Agency theory, rooted in the advancements of Jensen and Meckling (1976), mainly focuses on emerging agency costs linked to information asymmetries and their expropriation, due to opportunistic or rent seeking behavior of individual actors. Agency costs, in this sense, can evolve between the principal (shareholder) and the agent (manager) or between two principals (Dharwadkar, George, & Brandes, 2000; Jensen & Meckling, 1976).

Concerning the emergence of business and family business groups, there are two main views. Some researchers argue that in business groups, agency costs are minimized in cases where ownership and management are not separated (Chung, 2004). In those cases, interests should be mostly aligned if ownership and management are concentrated in one person or members of the same family (Cuervo-Cazurra, 2006). However, this constellation gives rise to the afore mentioned second type of agency problems, the principal-principal agency conflicts (Chung, 2013). In particular, these researchers explain the emergence of business groups with their incentive to expropriate minority shareholders through a variety of mechanisms, mainly in the form of related party transactions, such as tunneling, or propping up as well as the power of monopoly (Chang, 2003; Chung, 2013; Chung, 2004; Dharwadkar et al., 2000; Jia, Shi, & Wang, 2013; Khanna & Yafeh, 2007; La Porta et al., 1999; Ng et al., 2014).

Tunneling describes the process of redistribution of profits through transferring goods, services, capital or financing from one firm of the business group to another (Morck &

Yeung, 2003). With these intragroup transactions at artificially high prices, the family can transfer profits between affiliates (Chang, 2003). Since the cashflow-rights of the controlling owner or family usually differ among the member firms of the business group, there is an incentive to transfer the profits to the firm where their entitlement is the highest—which is called tunneling (Bae, Cheon, & Kang, 2008; Bertrand et al., 2008; Jia et al., 2013; Jiang, Lee, & Yue, 2010; Johnson, La Porta, Lopez-de-Silanes, & Shleifer, 2000; Morck & Nakamura, 2005; Morck, Wolfenzon, & Yeung, 2005; Morck & Yeung, 2003). The minority shareholders are left with low dividends, since the profits have been transferred elsewhere. These issues have received a heightened attention in the past years, since according to Chang (2003), past studies on corporate governance and agency issues often disregarded the fact that major shareholders in many cases control several firms and form business groups. Kang, Lee, Lee, and Park (2014) found that the extent of these related party transactions is linked to the proportions between cash-flow- and voting-rights. According to the authors, the extent of intragroup trades is positively related to the voting rights and negatively correlated with cash-flow rights, as expected. Additionally, they find that such transactions in the case of a big discrepancy between the voting and cash-flow rights, have a negative impact on firm value (Kang et al., 2014).

In the context of intragroup transaction, there exists another type of the tunneling process, referred to as *propping up* (Bae et al., 2008; Friedman, Johnson, & Mitton, 2003). Compared to the normal tunneling, where the direction of the capital flow takes place from the low- to high-cash-flow-right-organizations, the negative, reverse tunneling or propping up takes a different approach. Propping up means a reallocation of capital within a business or family business group in order to save a troubled affiliate (Bae et al., 2008). The controlling shareholder or family directs the profits—or even own funds—to the firm in need, regardless of their cash-flow-rights, in order to protect the firm from bankruptcy (Friedman et al., 2003).

Closely related to the process of propping up, is the *coinsurance theory* (see Jia et al., 2013; Khanna & Rivkin, 2001). This theory emphasizes the reciprocity of the relation between the parent and the business group member. According to Fisman and Wang (2010), business group members may receive financial aid from the group parent but also provide loans to the parent in times where there are financial constraints, or external financing is needed but difficult to obtain.

In conclusion, the agency-theory-based-arguments suggest that family business groups exist, since they provide ways for the controlling owners to entrench themselves through various means—most importantly related party transactions in the form of tunneling, propping up, etc. These means, however, tend to be harmful, especially for minority shareholders, which is concurring with the findings of La Porta et al. (1999) who show that business groups are less prominent in common law countries with good shareholder protection.

This argument can be extended to the country level, as there exist, although not entirely backed by empirical data, theoretical presumptions that link the emergence and existence of business and family business groups to their potential of monopoly power, collusive behavior and facilitation of cartelization (Khanna & Yafeh, 2007; Morck, 2005). With their market power, they are suspected to have anti-competitive effects by driving other competitors out of the markets or hindering their entry in the first place (Khanna & Yafeh, 2007). Mahmood and Mitchell (2004), for example, show in their study using data from South Korea and Taiwan that business groups create barriers for independent firms to hinder their entry into the market. They further show that this behavior has a negative impact on innovation since it hampers the diversity of new ideas and discourages innovation (Mahmood & Mitchell, 2004). According to Khanna and Yafeh (2007, p. 361), this monopoly power is a result of their "deep pockets", first mover advantages, ties to the government and multimarket contacts. Concurring with these findings, Morck, Stangeland, and Yeung (2000) find negative effects on economic growth related to entrenched family control of a nation's capital and introduce the phenomenon they call the "Canadian disease". According to their findings, which is based on micro-level data from Canada, wealthy entrenched families have objectives other than creating public shareholder value (Morck et al., 2000). Through their often pyramidal control structures (discussed in chapter 2.7), they furthermore have a better access to capital and an enhanced lobbying power (Morck et al., 2000). Additionally, there seem to be big differences between countries on the exertion of market power (Khanna & Yafeh, 2007). However, with respect to the scarce literature, these presumptions remain speculative.

2.6.4 Resource-based View and Capabilities Perspectives

Another theoretical approach to explain the emergence of family business groups takes the perspective of a resource-based view. According to this view, business groups and their affiliates have the opportunities to acquire resources and capabilities due to their network of different organizations (Chung, 2014; Chung, 2004). These resources and capabilities give the business group advantages over nonaffiliated firms and include different factors emerging due to a combination of domestic and foreign resources (Guillén, 2000). The advantages that emerge because of their affiliation to a business group include, for instance, the capital and financing equipment they receive most likely through intragroup trade (Guillén, 2000). Manikandan and Ramachandran (2015) further broaden this perspective by stating that the access of the affiliates to a large resource pool across the business group enhances their ability to identify strategic opportunities that are covered by incomplete markets. According to the authors, this gives the business group greater access to growth potential (Manikandan & Ramachandran, 2015).

Furthermore, technological or organizational know-how, social capital as well as industry entry skills, managerial and export-related skills are transferred among affiliates (Amsden & Hikino, 1994; Chung, 2004; Guillén, 2000). By setting up an internal mobility agreement, they also profit from trained employees (Amsden & Hikino, 1994; Chung, 2004; Guillén, 2000; Mahmood et al., 2011). The Indian Tata Group, for example, has set up an internal labor market in this manner (Khanna & Rivkin, 2001). Concerning their access to external top management candidates, Khanna and Rivkin (2001) point out that the Korean business group Samsung, to name another example, pools their resources in order to recruit international talents. Khanna and Rivkin (2001), as well as Chung (2004) further add that one of the most important resources that affiliates profit from, especially in developing markets, is the social capital and reputation of the business group or especially family business group as such. Social capital refers to the benefits for participants rooting from social, interpersonal, and structural relationships. According to Chung (2004), the mutual trust and reciprocity that represents the basis of these relationships, insures that participants—or in the case of business groups, affiliates—act in a compliant way. A violation of this trust would permanently damage these relationships (Chung, 2004). In spite of an institutional framework with weak contract enforcements, trade partners' fear of opportunistic behavior is weakened when dealing with an affiliate who is a member of a business groups with a trusted brand. The affiliation itself thus represents a viable resource for each affiliate. A good example is the Indian Tata Group, which in spite of its broad diversification, provides an umbrella for the associated organizations (Khanna & Rivkin, 2001). However, there is also a downside to the social capital approach since an over-embeddedness in these networks can cause parochialism, isolationism, xenophobia, and inertia (Chung, 2004).

2.6.5 Family Business Literatures

The above arguments, based on the literature on business groups, are heavily influenced by institutional theory and agency theory. The family business literature, however, has added a few more facets that should be considered in order to achieve a comprehensive view on family business groups. The added value to the discussion about family business groups is twofold.

Firstly, the existing literature has focused on a rather static view on the phenomenon, whereas the family business literature adds a more dynamic aspect by highlighting a process view that also looks at a longitudinal development, namely the aspect of transgenerational entrepreneurship. Nordqvist and Zellweger (2010, p. 1) define transgenerational entrepreneurship as the "processes through which a family uses and develops entrepreneurial mindsets and family influenced resources and capabilities to create new streams of entrepreneurial, financial and social value across generations." Secondly, while the existing literature rather focuses on the corporate and contextual aspects of the phenomenon, family business literature shifts the level of analysis more towards the family as an actor influencing the family business group as a whole. By including the behavioral aspect of the owner (group), it takes into account the multilateral influence of the family. The behavioral aspects, such as competing interests among family owners, the wish to perpetuate family control and the identification of the family with the firm are all important factors in regard to achieving a holistic understanding of family business groups.

The literature on *transgenerational entrepreneurship* has received more and more attention in the recent past and presents another reason for the emergence of business groups, by focusing on the family as an entrepreneurial actor. According to Iacobucci and Rosa (2010) the emergence of family business groups may be seen as a consequence of a family's inclination to act as an entrepreneur. In their understanding, business groups are the result of the behavior of serial or "habitual entrepreneurs" who established multiple firms, while keeping ownership stakes in most of them (Iacobucci & Rosa, 2010). In the process, they open up their organizations to other shareholders to accumulate capital for new ventures or to incentivize employees by giving them shares of the organization (Iacobucci & Rosa, 2010). Building on the framework of Habbershon and Pistrui (2002) on the topic of transgenerational entrepreneurship, Zellweger, Nason, et al. (2012) bring forward further findings that support the above argument by focusing on the longevity of entrepreneurial families and their ability to create value over generations. According to the authors, it is important to take into account the portfolio of business activities of the family, beyond the single firm. In their study, they show that approximately 90% of the families in their sample control more than just one firm, implying entrepreneurial activities beyond their core company (Zellweger, Nason, et al., 2012). In that sense, a family business group emerges as a result of the entrepreneurial activity of a founding family that develops a business portfolio over many generations.

Furthermore, the aspect of heterogeneous and often *competing interests within the group of family owners* seems to have been overlooked by current writings on family business groups. This, however, appears to be an important aspect which should also have an impact on the emergence, and in particular the structure of family business groups. With later-generation family firms often being controlled by several family owners, there is a need to coordinate the diverging interests through setting up governance structures to cope with the rising complexity and blockholder conflicts (see chapter 2.7.4; Zellweger & Kammerlander, 2015). One possible solution is the implementation of intermediaries, such as family offices or trusts, in order to separate the family from their assets. However, this separation can also be achieved through parent-subsidiary structures that result in business group like formations (Zellweger & Kammerlander, 2015). Therefore, the emergence of family business groups could also be seen as a reaction to coordinate the heterogeneous interests within a group of family owners.

Another aspect discussed in family business literature that seems important to understand the emergence of family business groups, is the *wish of the family to perpetuate family control*. A prominent argument for the emergence of family business groups, or business groups in general, is the ability to expropriate minority shareholders (see chapter above). Considering the works of Zellweger, Nason, et al. (2012), Dyer and Whetten (2006) as well as Chua, Chrisman, and Sharma (1999), who suggest that it is a prominent wish among business families to uphold family control across generations and therefore avoid harmful practices that can damage their firms' image, this seems counterintuitive. In that sense, the transgenerational control intentions run against the idea of expropriating other (minority) owners, as doing so would hurt the firm and endanger its survival. Furthermore, the wish for control is of importance to the study of family business groups, since it should help understanding why some control structures—such as the ones that are particularly hard to dismantle—may be prominent in the family business group context.

The family business literature thus adds further aspects to the family business group debate. Overall, this literature depicts a more nuanced and also more favorable view of family business groups than agency writings that often tend to see family business groups as problematic for affiliated firms and the wider economy. The family business literature especially highlights the heterogeneity of family owners, which makes the coordination of control necessary. Furthermore, it depicts family firms as wanting to perpetuate control over generations. This aspect is particularly interesting, as it goes against the agency perspective that focuses on the detrimental actions of family business groups regarding the expropriation of minority shareholder.

In conclusion, there exist several theoretically and empirically based approaches to explain the emergence of business and family business groups, respectively. These approaches, however, go beyond the traditional institutional voids theory of business groups and also focus on their added-value potential regarding their organizational aspects. With these differing approaches, a holistic view of the emergence of business groups is pursued that try to explain the phenomenon beyond the context of developing economies. The key arguments regarding the emergence of family business groups are summarized in Table 3.

Table 3: Key theoretical arguments on the emergence of (family) business groups

Theory	Findings / views	Authors / Articles
Institutional Voids Theory and Transaction Cost Theory **(most prominent explanation in the context of emerging markets)**	Business groups as response to imperfect markets or poorly developed institutional contexts that result in high transaction costs Formation in order to fill institutional voids and market inefficiencies such as imperfect factor markets, limited enforcement of contracts or inadequate rule of law Aim is to internalize business transactions in the absence of reliable trading partners or an enforced legal framework to allow efficient transactions between unaffiliated partners Facilitation of transactions is supported by the creation of trust (especially significant in family business groups)	Chang & Hong, 2000 Chittoor, Kale, & Puranam, 2015 Chung, 2004 Clague, 1997 Coase, 1937, 1998 Granovetter, 2005 Keister, 1998, 2001 Khanna & Palepu, 1997, 2000a Khanna & Rivkin, 2000 Khanna & Yafeh, 2007 Lee, Peng, & Lee, 2008 Leff, 1978 Mahmood & Mitchell, 2004 North, 1990
Agency Theory	Family business groups exist since they provide ways for the controlling owners to entrench themselves through intragroup transactions, such as tunneling or propping up as well as their potential for monopoly power, collusive behavior and facilitation of cartelization These means tend to be harmful, especially for minority shareholders	Khanna & Yafeh, 2007 Morck, 2005 Morck et al., 2000
Coinsurance Theory	Closely related to the agency theory, this theory sees the advantage of family business groups in their reciprocity of the relation between the parent and the business group member Group affiliates may receive financial aid from the group parent but also provide loans to the parent in times where there are financial constraints or external financing is needed but difficult to obtain	Fisman & Wang, 2010 Jia, Shi, & Wang, 2013 Khanna & Rivkin, 2001
Resource-based View / Capabilities Perspective	Emergence of business groups rooted in their network advantages that facilitate the acquisition of resources and capabilities These resources include capital and financing equipment (intragroup trade), know-how and social capital transfer as well as employee transfer through an internal labor market	Amsden & Hikino, 1994 Chung, 2004 Chung, 2014 Guillén, 2000 Khanna & Rivkin, 2001 Mahmood, Thu, & Zajac, 2011 Manikandan & Ramachandran, 2015
Family Business Literature	Transgenerational Entrepreneurship • Emergence of family business groups as consequence to a family's inclination to act as an entrepreneur • Result of the behavior of serial or habitual entrepreneurs	Chua et al., 1999 Dyer & Whetten, 2006 Habbershon & Pistrui, 2002 Iacobucci & Rosa, 2010 Zellweger & Kammerlander, 2015 Zellweger et al., 2012

	Competing interests within the group of family owners • Emergence of business group like structures to separate family from their assets to cope with the heightened complexity and diverging interests of the rising number of family owners • Family business groups as a reaction to coordinate the heterogeneous interests within a group of family owners	

2.7 Structure of Business Groups – Ownership and Control

After addressing the definitions, the significance and the underlying theories explaining the emergence of business groups and family business groups, I turn to the structure of these organizational forms. In particular, I seek to answer how the owners in control, i.e. the family, exercise their control over affiliated companies. Following the suggestion of Ng et al. (2014), I address the different forms of direct structures, indirect structures—also referred to as pyramids—as well as hybrid forms, and discuss the associated advantages and problems.

2.7.1 Direct or Horizontal Structures

According to Almeida and Wolfenzon (2006), the simplest way of setting up a structure of multiple firms is by holding direct ownership. The family holds its shares in the other firm(s) not through another entity, intermediary organization or holding firm, which is why there is also no separation between cash flow and control rights—assuming there are no dual-class shares in play (Ng et al., 2014). The family has access to the retained earnings of the affiliate to the extent of their share, cash flow and control rights are equal (Almeida & Wolfenzon, 2006; Ng et al., 2014).

This simple structure poses advantages as well as disadvantages for the controlling owner or family. By directly holding the shares of the company, the control or voting rights are equal to the cash flow rights. The family therefore captures all the security benefits, but can only exercise control to the extent of their shareholding, since there is no pyramidal structure (Almeida & Wolfenzon, 2006). This means that problems, typically observed in pyramidal ownership structures (i.e. disproportion between cash-flow and control rights, double-agency problems, tunneling, etc.), are not as prevalent in direct or horizontal structures. However, there are other conflicts that arise, such as minority-majority conflicts or family blockholder conflicts that will be discussed in the agency section of this chapter.

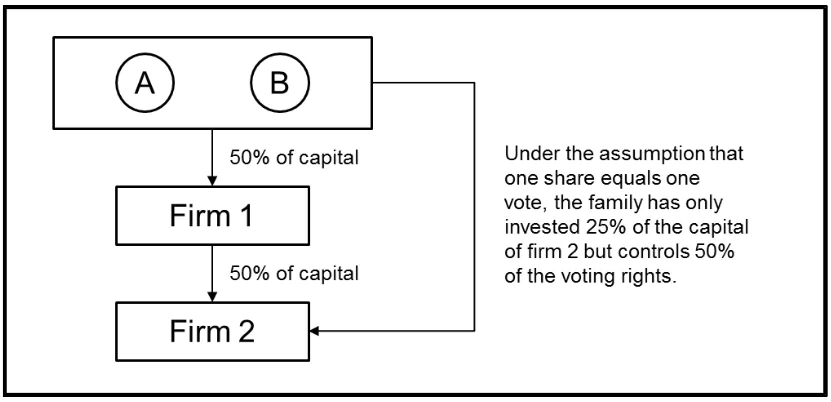
2.7.2 Indirect Structures and Pyramids

With an indirect group structure, the controlling shareholder or the family exerts control over the affiliated firms through an intermediary firm or a chain of ownership relations (Almeida & Wolfenzon, 2006). The family, for example, holds shares in a company through another organizational entity, intermediary firm or holding. According to Almeida et al. (2011), pyramids generally form when the family or controlling owner uses well-performing and embedded central firms in the business group to acquire other firms, therefore establishing a vertical expansion of the group.

According to La Porta et al. (1999), Masulis et al. (2011) and Chung and Chan (2012) pyramidal structures are the most common way of (family) business groups to concentrate control outside of the United States. As Masulis et al. (2011) present in their study, pyramidal structures account for roughly two thirds of business group structures in their sample including 28’635 firms in 45 countries. The other third is organized horizontally. Another study by La Porta et al. (1999) reveals that in their sample of firms from 27 countries, 26% of firms that had a controlling owner were organized in pyramids. The studies show that the usage of pyramids is mainly common in Asian countries (Claessens, Djankov, Fan, & Lang, 1999) and in some parts of Europe (Bebchuk, Kraakman, & Triantis, 2000; Bianchi, Bianco, & Enriques, 2001).

The construct of indirect and pyramidal structures is particularly interesting and only unfolds its organizational advantages, if it results in a separation between ownership and control rights (Bebchuk et al., 2000). This happens if the ownership stakes along the vertical chain are less than 100%, in particular if there are differential voting rights (Bebchuk et al., 2000). Concerning this separation, there exist differing views on how and why pyramids evolve. One of the most widespread arguments is that pyramids form because the family is able to exercise control over a number of firms, without having to invest the capital that would be necessary, in case of a horizontal or direct structure (Almeida & Wolfenzon, 2006; Berle & Means, 1932). If the family controls a central firm 1 by holding 50% of its shares and this firm 1 holds 50% of another firm 2, the family is able to control 50% of firm 2 by only investing 25% of the capital that would be required to directly control firm 2. The following figure illustrates this constellation.

Figure 1: Pyramidal structure in business groups (see Almeida & Wolfenzon, 2006; Ng et al., 2014)



In a study on the separation of ownership and control in nine East Asian countries, Claessens et al. (2000) reveal that in all of the studied countries, the voting or control rights exceeded the cash flow rights in cases of pyramidal structures. This effect was especially strong in family-controlled businesses.

However, there exist other views on the subject of pyramidal structures pointing out that in many cases, there is little separation between ownership and control despite pyramidal structures (see Almeida & Wolfenzon, 2006; Faccio & Lang, 2002; Franks & Mayer, 2001). In their study on 4'806 publicly listed firms in 13 Western European countries, Faccio and Lang (2002) show that the ratio of cash flow to control rights of the largest ultimate shareholder is on average 0.868. The highest discrepancy was found in Switzerland with a ratio of 0.74 and the lowest in Spain with 0.941 and France with 0.93. Overall, the authors state that only in a few countries the discrepancies between ownership and control are significant.

The question thus arises why pyramidal structures are so common, since according to Almeida and Wolfenzon (2006) there are other ways to achieve the separation of cash flow and voting rights—for example by using dual-class shares. With this mechanism in place, there are two separate types of stock—shares with and shares without voting rights. By issuing dual-class shares, the voting rights and cash-flow rights are therefore unequally distributed among shareholders without the use of multiple firms (Bebchuk et al., 2000). Faccio and Lang (2002) show that among Western economies, Sweden has the highest percentage of firms issuing dual class shares (66.07%), closely followed by Switzerland (51.17%), Italy (41.35%), and Finland (37.6%) (Faccio & Lang, 2002). One of the most prominent cases that illustrates how dual-class shares are used as a control enhancing mechanism is the Wallenberg group in Sweden. According to Bebchuk et al.

(2000), the group holds 40% of the voting rights of their investments but only about 20% of the equity in the group's principal holding company. The dual-class shares, however, despite being a simpler instrument, are in general not as common as pyramids (Almeida & Wolfenzon, 2006; La Porta et al., 1999). In their study on 28'635 firms in 45 countries, Masulis et al. (2011) show that only 15% of family business groups use dual-class shares. La Porta et al. (1999) and Bebchuk et al. (2000) emphasize that it is important to take into account country specific legal frameworks that sometimes prohibit dual-class shares. Nonetheless, this aspect seems to underline that there must be further advantages of business groups.

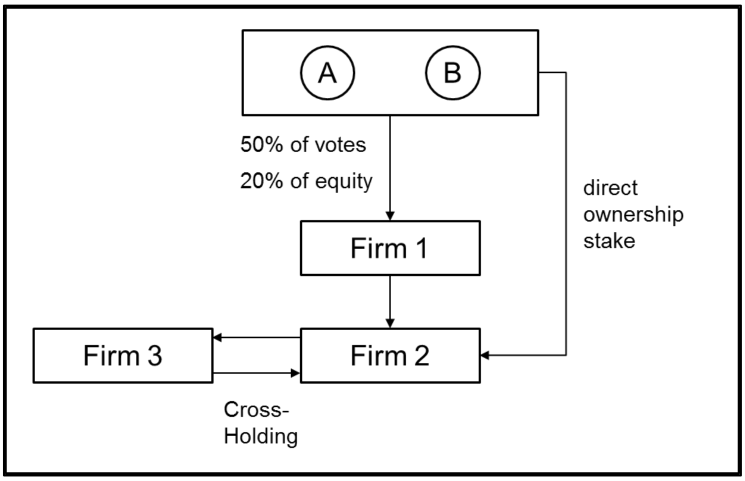
Another control enhancing mechanism that could be used alternatively to pyramids is cross-ownership. A cross-shareholding describes the case where two firms hold equity stakes of each other (Bebchuk et al., 2000; Park, Seo, & Shin, 2014). Masulis et al. (2011) find in their study that 10% of family business groups use such cross-holdings as control enhancing mechanisms or to expropriate minority shareholders. Cross-holdings seem to be a popular way in Asia to conceal the effective control structures in business groups (Bebchuk et al., 2000; Weidenbaum, 1996).

The question remains why pyramids are so prominent in the context of business groups. Assuming a poor investor protection, Almeida and Wolfenzon (2006) come to the conclusion that pyramidal structures offer additional advantages that explain their ubiquity in the context of business groups. These advantages can be described as "payoff advantage" and "financing advantage". The payoff advantage describes the case where the controlling family is able to divert the retained earnings from the affiliate to their own interest, while the security-benefits and costs are shared among the group and with the non-family shareholders (Almeida & Wolfenzon, 2006). The authors further describe the financing advantage as having the possibility to access the internal funds of the whole group. External investors are prone to anticipate the diversion of cash flow which makes the internal funding favorable (Almeida & Wolfenzon, 2006). Concurring with these findings, Masulis et al. (2011) find that pyramidal structures are most prominent in countries where there exist financial constraints, or capital costs for external funds are high.

2.7.3 Hybrid Structures

A third form of how business groups are structured is a combination of the afore mentioned direct and indirect forms. So-called hybrid structures represent a business group that is organized in a way that the family or the controlling shareholder holds ownership stakes in part directly as well as through a pyramidal network (Chung & Chan, 2012), cross-holding (Ng et al., 2014; Park et al., 2014) or dual-class shares (Faccio & Lang, 2002; Masulis et al., 2011).

Figure 2: Hybrid structures in business groups (see also Ng et al., 2014)



Taking together the different mechanisms, the effects of the separation between ownership and control on firm value was studied by Claessens et al. (2002). In their sample of 1’301 publicly traded corporations in eight East Asian economies, their findings show that firm value increases with the cash-flow ownership of the largest shareholder. However, this effect is reversed if the control-rights of the largest shareholder exceed the cash-flow ownership.

2.7.4 Agency Conflicts Linked to the Different Structures

According to Zellweger and Kammerlander (2015), there are four underlying agency conflicts in the family business governance that are also relevant for family business groups. These are the principal-agent conflict, the majority-minority-owner conflict, the family blockholder conflict and the double-agency conflict (Zellweger & Kammerlander, 2015).

While the traditional principal-agent conflict is focused on the differing interests between the principle or owner of the company and the manager, the majority-minority-owner conflict as well as the family blockholder conflict focus on issues between different owners or ownership groups (Zellweger, 2017; Zellweger & Kammerlander, 2015). While the majority-minority-owner conflict highlights the ability of controlling owners to expropriate minority shareholders with their superior control rights, the family blockholder conflict focuses on conflicts within a group of family shareholders (Zellweger & Kammerlander, 2015). Lastly, the double-agency conflict addresses the issue of aligning interests of agents monitoring other agents in cases where there is a double separation between owners and managers (Zellweger, 2017; Zellweger & Kammerlander, 2015). Now the question arises, which organizational structure of family business groups is particularly exposed to these agency conflicts.

Direct ownership and high ownership concentration is generally seen as beneficial regarding the traditional principal-agent costs, since controlling owners have a high incentive to monitor managers (Demsetz & Lehn, 1985). However, controlling owners or blockholders could also use their power in order to extract private benefits, which serve them in a financial or non-financial way but harm minority shareholders (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2002; Zellweger & Kammerlander, 2015). Additionally, the heterogeneity of owners—especially in the context of family business groups—can cause conflicts within a blockholder group among family members due to misaligned interests (Bertrand et al., 2008; Zellweger & Kammerlander, 2015). Such conflicts can have a direct impact on the unity of the group itself and are seen as particularly destructive and costly, since they effect both the other family owners and the minority shareholders of the firm (Zellweger & Kammerlander, 2015). In the context of directly or horizontally structured business groups, there is no intermediary organization that might pose as a unifying front. Hence, the individual owners have the possibility to act in ways that directly affect the assets or firms. In a constellation that is similar to the one shown in Figure 1, a conflict between the two owners or family members A and B could result in a principal-principal conflict inside firm 1. This could for example slow down decision making processes or lead to strategic inertia.

An indirect ownership structure using a vehicle to coordinate the activity of the controlling owners or the family that poses as an intermediary organization might be helpful in these cases. However, indirect or pyramidal structures particularly give rise to the opportunity of the expropriation of minority shareholders as well as principal-principal agency costs as discussed (see chapter on agency theory; Chung, 2013). With differing cash-flow and control rights the family or controlling owner might have the incentive to tunnel earnings to the firm where cash-flow rights are the highest, leaving minority-shareholders of the successful firm at a disadvantage (La Porta et al., 2002; Morck & Yeung, 2003; Ng et al., 2014; Zellweger & Kammerlander, 2015). Compared to a horizontally structured business group, pyramidal business groups seem to be more prone to these agency conflicts since their form enables owners to a certain detrimental behavior, such as tunneling or propping up (Ng et al., 2014). On the other hand, indirect structures might dampen blockholder conflicts since there are intermediary firms or holdings that combine or align the interests of the blockholder group (Zellweger & Kammerlander, 2015).

Table 4: Organizational structures and corresponding agency conflicts

	Direct or horizontal structures	**Indirect structures (pyramids)**	**Hybrid structures**
Principal-agent conflicts	Low to medium	High	Medium to high
Family blockholder conflicts	High	Low	Medium
Majority-minority agency conflicts	Medium	High	High
Double-agency conflicts	Low	High	High

In conclusion, family business groups differ with regards to their structural complexity. In most cases, business groups are organized through pyramids, where there are vertical chains of ownership relations. Pyramids are mostly explained by their ability to separate ownership and control, enhancing the influence of the controlling shareholder or family without the otherwise necessary capital investments. This, however, is only one approach since such a separation could be achieved by simply introducing dual-class shares or other measures without risking additional principal-principal costs. Therefore, it is necessary to take into account the payoff and financing advantage of pyramidal structures that are especially relevant in the context of poor investor protection as well as the possibility to align the interests of the owners in order to exercise concerted power. The three organizational structures expose family business groups in different ways to the four agency conflicts. Since direct ownership seems to expose the family business group to family blockholder conflicts and majority-minority-owner conflicts (in cases where they are not the only shareholders), this structure seems less prone to the traditional principal-agent conflict or the double-agency conflicts. The indirect structure on the other hand seems to foster majority-minority-owner conflicts and double-agency conflicts.

2.8 Performance of Family Business Groups

Despite the ubiquity of business groups around the world, there is still a disagreement about the question of whether or not the effects of business groups and group affiliation on firm performance are positive (Carney et al., 2011; Khanna & Rivkin, 2001). Empirical research that focused on this question has come to ambiguous results (Fisman & Khanna, 2004; Guest & Sutherland, 2010; Keister, 2000; Khanna, 2000; Khanna & Palepu, 2000b; Khanna & Yafeh, 2007; Leff, 1978; Yiu et al., 2007).

Khanna and Rivkin (2001), for example, studied business groups in 14 emerging markets. In six of the countries under research, business group affiliates showed better performance than non-affiliates. However, in five countries there were no significant differences between affiliates and non-affiliates, while in the three remaining countries, firms that were part of a business group even had a lower performance compared to other firms (Khanna & Rivkin, 2001). Earlier research conducted by Caves and Uekusa (1976) on Japanese business groups also showed inferior performance and lower profits of business group affiliates compared to non-affiliates. Concurring with these findings, Nakatani (1984) later also came to the conclusion that there is a negative relationship between group-affiliation and performance in Japanese business groups. To broaden the scope, Khanna and Yafeh (2007) studied business group performance in ten emerging economies, where the results showed a negative effect of group affiliation on firm performance in half of them—Brazil, India, Korea, Taiwan, as well as Thailand. However, other empirical research paints a different picture. Chang and Choi (1988), for example, conducted a study on Korean business groups, finding a positive effect of affiliation on firm performance by focusing on business groups with a multidivisional structure. A study by Keister (1998) came to similar results for Chinese business groups by investigating the 40 biggest business groups as well as their 535 affiliated firms.

These empirical findings make it obvious that there are significant differences between business groups regarding their effects on group member performance (Khanna & Yafeh, 2007). In that sense, affiliation alone is not a sufficient factor to determine a performance effect.

The question thus arises what factors could explain the different empirical results while at the same time account for the heterogeneous (family) business group context. According to Carney et al. (2011), four key methodological and contextual aspects need to be taken into account regarding this incongruity.

First, the varying effects on performance seem to be connected to the heterogeneity of characteristics that are associated with business groups. Although, this variegated and complex phenomenon of business groups would call for a more integrated analysis, combining more generic conceptual frameworks and nuanced methodological approaches, most studies only focus on mono-theoretical perspectives (Carney et al., 2011). Each of these approaches come to rigorous results concerning their point of view, but are not sufficient in explaining the differences in a holistic manner. In order to approach the incongruity, Carney et al. (2011) call for comparative studies focusing on cross-national performance differentials.

Second, there seems to be a need for a finer-grained differentiation regarding the institutional contexts of countries (Carney et al., 2011). While the institutional voids theory makes a distinction between emerging and developed markets, the specific types of institutional voids are not further discussed. In their study, Carney et al. (2011) chose a more specific distinction between near-perfect developed institutional frameworks to grave institutional voids, matching them with the performance data of the affiliates. They find that the conventional institutional voids theory only holds "where group membership compensates for missing institutions, and […] where affiliates suffer from the conglomerate discount that is commonly observed in developed nations" (Carney et al., 2011, p. 453). The authors find that business group affiliation only has a positive effect on group affiliates performance in cases where there are institutional voids regarding labor and financial market institutions. In cases where there are underdeveloped legal institutions, the effect on performance is negative, therefore highlighting the demand for a more nuanced view regarding the institutional voids theory. However, there is no explanation to why affiliates perform better than unaffiliated firms in well-functioning institutional contexts, and in contrast perform so badly when severe institutional voids are present (see Carney et al., 2011; Chang, Chung, & Mahmood, 2006; Hoskisson, Johnson, Tihanyi, & White, 2005).

Third, apart from the perspective and methodological approach, the strategic choices of affiliated firms seem to moderate their performance as well. Especially strategic processes concerning financial leverage and diversification play an important role. Carney et al. (2011) find that higher levels of leverage and diversification correlate with a lower level of performance of group affiliated firms. Consistent with the agency theoretical perspective on business groups, this correlation might stem from an inefficient allocation of resources rooting in the fact that high levels of leverage and diversification are associated with pyramiding and tunneling (Carney et al., 2011; Morck & Yeung, 2003). Family business group performance might therefore suffer in cases of group internal bailouts, trades at nonmarket prices or other related-party transactions (Zellweger, 2017).

Fourth, adding to the spectrum of drivers related to business group performance, Carney et al. (2011) find a dual effect of business group size on performance. Even though business groups can achieve a higher market power and size-related cost savings, the negative effects of business group size moderate this effect mainly due to an increase in complexity as well as bureaucratic and control costs (Carney et al., 2011).

As a result, the question whether or not business group affiliation has a positive effect on performance, cannot be answered conclusively due the numerous influencing factors regarding the business group itself (size, scope, leverage, diversification, etc.) and the context in which the group is active (institutional framework, etc.) (Carney et al., 2011; Khanna & Yafeh, 2007).

2.9 Discussion and Implications for Future Research

This paper attempts to make two contribution to the family business groups literature. First, the paper's main goal was to provide a focused overview of the family business groups literature, in order to conclude the main findings of the rather wide and dispersed area of research. Despite the increasing attention, the topic of business groups and family business groups has received in the recent past, the studies in this field predominantly focus on rather distinct aspects of the phenomenon or study business groups in specific contexts.

In this paper, I approach the status quo by synthesizing the various definitions in the literature and conclude that a family business group is seen as a multicompany network or a set of two or more firms, which are legally independent and bound together by formal and/or informal ties and controlled by a family. Despite the fact that family business groups have been mostly researched in the context of developing economies, their ubiquitous presence and strong economic influence in most countries highlights their theoretical and practical importance across country-specific settings. There are several theoretical approaches to justify their emergence. Most prominently, the institutional voids theory and transaction cost theory that see the emergence of family business groups as a response to imperfect markets or poorly developed institutional contexts that result in higher transaction costs. Closely linked to this approach is a more governmental focused perspective, which depicts the emergence of family business groups as a result of governmental industrialization programs to overcome institutional voids. Despite their undoubted relevance in emerging economies, these approaches suggest that with an improving institutional environment, business groups become obsolete. As the evidence shows, however, business groups and family business groups prosper in developed institutional environments, emphasizing the necessity to look beyond the institutional voids theory. The agency theory approach sees the reason for their emergence in the provision of ways for controlling owners to entrench themselves through intragroup transaction, collusive behavior and expropriation of minority shareholders. On a more positive note, the coinsurance theory emphasizes the reciprocity of the relation between the parent and the business group affiliates, which can result in an environment of mutual support. The resource-based view and capabilities perspective also lend comprehensive explanations by seeing the emergence of business groups rooted in their network advantages that facilitate the acquisition of resources and capabilities. Lastly, the family business literature explains the family business groups as the result of transgenerational entrepreneurship and competing interests within the group of family owners.

The paper further addresses the different structural appearances of family business groups and highlights the agency conflicts that arise with different structural settings. Family business groups are in most cases organized through pyramids with various vertically aligned investments but differ regarding their structural complexity.

To conclude with the theoretical analysis of the research on family business groups, the paper took a closer look at performance aspects in light of the relationship between the different business group affiliates. Even though several studies addressed the question whether group affiliation has a positive or negative effect on firm performance, the results were rather ambiguous. Reasons might be found in the heterogeneity of characteristics associated with business groups, an oversimplified account of the institutional contexts, and the moderating effect of individual group affiliates' own strategies.

The second contribution of this paper aims at presenting the discovered research gaps for further projects in this field of study to outline the unexplored areas of family business groups research. There seem to be four aspects that current research in the field has not yet sufficiently covered.

First, the predominant explanation for the emergence of family business groups still lies in the institutional voids theory. This theory found widespread approval among scholars and focused research on family business groups in the context of developing countries. This, however, neglected the fact that family business groups exist and thrive in developed countries as mentioned before. While there is an increasing number of studies that address this element (e.g., Belenzon & Berkovitz, 2010; Carney et al., 2018; Chittoor et al., 2015; Kosenko & Yafeh, 2010; Lamin, 2013; Siegel & Choudhury, 2012; Zellweger & Kammerlander, 2014), research on family business groups in developed countries is still rather scarce. Further research is therefore necessary to better understand their existence and role in economies where institutions are developed and the institutional voids theory provides insufficient explanations for their presence.

Secondly, from an agency theory perspective, family business groups are mainly seen as an instrument for collusive behavior and expropriation of minority shareholders through related party transactions. However, the current discussion does not sufficiently address the consequences and effects of agency conflicts that arise with different structural arrangements of the family business group. How, for example, do agency conflicts related to the business group structure affect the stability of a family business group?

Thirdly, the current state of research on family business groups has largely excluded the family business literature from the discussion. Especially the aspect of transgenerational entrepreneurship, where family business groups could be seen as a result of a family's inclination to act as an entrepreneur has yet to be discussed and researched in more detail.

Lastly, there are ambiguous results related to the performance aspects of family business groups. Despite there being a number of publications that focus on the topic, there is still a disagreement about the question of whether or not the effects of business groups and group affiliation on firm performance are positive (see also Carney et al., 2011; Khanna & Rivkin, 2001). Although, this variegated and complex phenomenon of business groups would call for a more integrated analysis, combining more generic conceptual frameworks and nuanced methodological approaches, most studies only focus on mono-theoretical perspectives (Carney et al., 2011).

2.10 Limitations

While business groups are the dominant organizational form across the world, families are their core owners in most cases, which makes a clear distinction between family business groups and business groups challenging—especially, with regards to the thriving literature that has emerged over the last decades. This study tried to clearly navigate the various distinctions but was partially limited by the many blurred lines between the two phenomena.

Additionally, the findings of this study are based on a systematic literature review. Due to following clear rules with regards to the identification and selection of research articles to achieve a rigorous and reproducible scientific approach, it is possible that potentially valuable research contributions were not considered as they did not fit the strict search pattern. Future research might thus extend the approach with regards to an even broader and more inclusive search strategy, for instance by including other denominations of (family) business groups and similar control structures.

2.11 Conclusion

With this paper, I have attempted to provide a focused overview of the current research on family business groups, subsuming the various existing definitions and highlighting the significance and unique characteristics of family business groups with respect to their emergence, structure and performance, as well as pointing at the potential research gaps for future studies. I hope that the study fosters further research toward addressing the unanswered questions regarding this interesting phenomenon of family business groups.

3 Estate Taxes and Business Transfers Across the Globe: A Configurational Analysis

Maximilian Groh, Christine Scheef, Thomas Zellweger

3.1 Abstract

Estate taxes on business inheritance are regularly the subject of controversial debates in business, politics and economics. However, a holistic understanding and systematic analysis of what shapes cross-national differences in estate taxes is missing. Using data from 54 countries, the study presents a comprehensive configurational analysis of socio-economic determinants of estate taxes. We reveal six distinct configurations of country-level entrepreneurial activity, business ownership, wealth inequality as well as cultural orientation towards individualism and the long term, which explain the presence of high or low estate taxes, and theorize around the institutional principles upon which societies draw to justify these estate taxes. Our analysis also highlights the importance of treating low and high estate taxes as separate outcomes since, for example, a country's entrepreneurial activity is less relevant than business ownership in configurations for high estate taxes, while the opposite is true for configurations for low estate taxes. Our study contributes to a more nuanced understanding of the drivers of international variation in estate taxes and the particular role of entrepreneurs and business owners therein.

3.2 Introduction

Many entrepreneurs are deeply concerned about the preservation of the wealth they have created (Dehlen et al., 2014; Kammerlander, 2016) and often hope to maintain family control over their estate (Carney et al., 2014; Zellweger, Kellermanns, Chrisman, et al., 2012). In many countries, however, estate taxes interfere in the intergenerational transfer of assets, which has been found to engender negative consequences for investments (Ellul et al., 2010) and the survival of private (family) firms (Carney et al., 2014; Yakovlev & Davies, 2014). Surprisingly, though, our understanding about the link between entrepreneurship, defined here as new venture creation, and estate taxes is severely limited as is our understanding of international variation in estate taxes on business inheritances. Filling this gap in the literature holds the promise of providing new insights into the causal interplay of estate taxes, entrepreneurship, and wealth inequality—a controversially debated topic among academics, practitioners, and politicians alike (Economist, 2019b; IMF, 2019).

In our study, we advance a configurational model of the determinants of estate taxes on business inheritances from parents to children. We draw on the literature on institutional theory, particularly institutional polycentrism, which postulates that institutional environments are characterized by multiplicity and hence the confluence of different types of interrelated institutions (Acemoglu, Johnson, & Robinson, 2005; Batjargal et al., 2013). For instance, studying estate taxes in France, Germany, the United Kingdom, and the United States, Beckert (2008) suggests that the level of the estate tax in a country is the result of political bargaining between advocates and opponents, who draw from a host of socio-cultural arguments, such as the equality of starting conditions in life and the redistribution of wealth from the rich to the poor or, alternatively, the desire of the establishment to protect its wealth. In light of this complexity, we refrain from studying the determinants of estate taxes in isolation, which would be an unwarranted simplification, but conceptualize estate taxes as a configuration of systematically interdependent socio-economic factors, in particular a country's level of entrepreneurial activity and business ownership, a country's cultural orientation toward individualism and the long term, and country-level wealth inequality, of which some have been individually linked to estate taxes. We deploy fuzzy-set qualitative comparative analysis (fsQCA; Ragin, 2009) to disentangle the complex interdependencies among these socio-economic factors and use novel estate tax data from 54 countries, which we hand-collected via policy capturing using a uniform case vignette sent to tax experts from a global accounting firm.

With our study, we provide a refined understanding about the linkages between the estate tax and the business context in a country—namely, the extent of entrepreneurship and business ownership (Chen, Lee, & Mintz, 2002; Holtz-Eakin, 1999)—and further contribute to the economic literature on estate taxes and inheritance law (Beckert, 2008; Ellul et al., 2010; Piketty & Saez, 2013), and to the literature on the contested link between wealth inequality and estate taxes (Benhabib, Bisin, & Zhu, 2011; Cagetti & De Nardi, 2009). Thus, our study provides important institutional underpinnings to controversial debates on the interplay of entrepreneurship, business ownership, and wealth inequality in a country.

3.3 Theoretical Background

3.3.1 Estate Taxes

The preservation of wealth is a major concern for entrepreneurs and business families (Kammerlander, 2016), and estate taxes constitute a direct interference in the intergenerational transfer of wealth. Upon the death of an entrepreneur, the question arises of how to appropriately reallocate his or her wealth. Taxing the wealth of the deceased in a modern sense started in the early 19th century, when liberal social reformers voiced fundamental concerns about the unequal distribution of wealth and the concentration of economic power in the hands of a few individuals or families (Beckert, 2008). The discourse intensified in the late 19th century with the ascension of social reformist movements in Europe, particularly in France and the United Kingdom, which were met with the desire of governments to increase state revenues (Beckert, 2008). This was at a time "when the modern state . . . began to take shape, when large companies asserted themselves as new economic structures in the economy, and questions of social inequality moved to the forefront of political clashes as a result of the social consequences of industrialization" (Beckert, 2008, p. 169).

Today, many societies regulate the process of wealth reallocation through a codified inheritance law. This law "defines the rights of the testator to dispose of his or her property by will, the rights of the deceased's family members, and the rights of the state to appropriate all or part of the property" (Beckert, 2008, p. 1). There are vast differences in how countries organize their inheritance law, particularly the right of the state to appropriate property, which is mostly regulated by the imposition of a tax on the wealth of deceased individuals.

In general, death taxes can differ in terms of the taxable base (Carney et al., 2014). The tax can either be directly imposed on what the deceased leaves behind, in which case the tax is called an *estate tax*, or be imposed on the share of the estate assigned to each inheritor, in which case the tax is called an *inheritance tax* (Beckert, 2008; Cremer & Pestieau, 2006). If a deceased individual leaves behind an estate partly to his or her children and partly to a cousin, the inheritance tax levied on the part the beneficiary receives may further differ between the children and the cousin. Typically, the inheritance tax for the cousin is higher since he or she is more distantly related to the deceased and should thus receive less privileged access to the estate. In contrast, an estate tax does not distinguish between heirs' relationships to the deceased as it is levied on the estate itself (Beckert, 2008; Cremer & Pestieau, 2006). In this case, neither the children nor the cousin of the deceased pays the tax. Rather, the tax is directly levied on what the deceased leaves behind, and the remaining property is distributed between the heirs.

Moreover, in determining death taxes, some countries differentiate between the type of asset that is passed on, such as whether the underlying asset is an established business, a financial asset, or real estate property (Molly, Laveren, & Deloof, 2010). In case of a business inheritance, some countries further assess whether the heirs will continue the business or not (i.e., cash out) such that in the latter case, higher taxes apply. Lastly, some countries allow exemptions from or reductions to the tax rate, such as when an estate is transferred to a charitable institution or when an estate does not pass a certain nominal threshold. As we further elaborate on in the empirical section, for the purpose of our study, estate tax refers to a country-level tax that is imposed on the transfer of a deceased business owner's business to children who seek to continue the business for some time.

3.3.2 Institutional Foundations of Estate Taxes

In his comparative study of inherited wealth in Germany, the United States, the United Kingdom, and France, Beckert (2008) points to four institutional principles that underlie the presence or absence of estate taxes. The *family principle* is prominent in countries wherein an entrepreneur's property is not seen as individual property but as the property of the family that outlives the entrepreneur. The family principle is prominent in Germany, for example, and delegitimizes estate taxes. The *equality of opportunity principle* states that wealth inequality is only justified based on different individual achievements in life, which calls for the redistribution of inherited wealth through taxation. Prominent in the United States, this principle states that estate taxes lead to more equal starting conditions in life. Under this principle, the untaxed transfer of wealth through bequests is seen as an infringement on the cultural norms of meritocracy, personal responsibility, and the promotion of self-made (i.e., entrepreneurial) as opposed to inherited wealth (Beckert, 2008; De Nardi, 2004). Under the *social justice principle*, estate taxes serve to correct the unequal success of market participants and to curb the power of nobility and the establishment. Prominent in France, estate taxes are justified on the basis that heirs have the financial means to pay and the notion that wealthy families may take advantage of the working class without bearing the appropriate share of the tax burden (Schimmer, 1996). Finally, the *community principle* states that after their death, entrepreneurs are expected to dedicate their wealth to promoting the common good by establishing charitable foundations or trusts. Prominent in the United States, estate taxes are seen merely as the fallback option to create incentives for establishing charitable entities as these entities are exempt from estate taxes. In sum, Beckert (2008) presents a fascinating account of estate taxes as a reflection of the social fabric of society in which a blend of social, cultural, and economic factors shapes the adoption of estate taxes. Yet, Beckert's (2008) qualitative account is limited to four Western countries and fails to systematically (and quantitatively) explore the interlinkage between estate taxes and socio-economic factors, such as entrepreneurship, culture, and wealth inequality.

In working toward filling this important gap in the literature, it is useful to refer to research that points to institutionally induced variation in estate taxes (Carney et al., 2014; Ellul et al., 2010). Institutional theory suggests that social structures and derived regulations are the result of shared and accepted definitions of reality, which are influenced by a set of social rules, norms, and routines (Scott, 2001). Scott (2001, p. 48) describes institutions as "social structures that have attained a high degree of resilience [and] . . . provide stability and meaning to social life." Scott (2001) distinguishes between cultural-cognitive, normative, and regulative institutional pillars. The *cultural-cognitive* pillar focuses on shared conceptions, beliefs, and mental models (Scott, 2014). Actors in a social system align themselves toward perceived role models and mimic their behavior (Scott, 2014). The cultural-cognitive characteristics of a society serve as background institutions and tend to be rather stable over time (Williamson, 2000). The *normative* pillar focuses on values and norms, with values being understood as conceptions of preferred behavior and norms as the guidelines of behavior consistent with these values (Scott, 2014). Normative and cultural-cognitive institutions thus focus on informal rather than formal structures. In contrast, the *regulative* pillar focuses on formal rule setting, monitoring, and sanctioning, which are reflected in legal regulations. These rules and laws shape behavior and reward or sanction individuals' actions (Scott, 2014). As an enforceable legal regulation, we view estate taxes as a regulative institution.

All three institutional pillars of Scott's (2001) framework can influence each other and may have different effects depending on the other institutional attributes (e.g., Greckhamer, 2011; Murtha & Lenway, 1994). Comparative institutional analysis indeed shows that international variation in institutional settings is driven by the locally situated interplay of economic and cultural factors (e.g., Aguilera & Jackson, 2003; Hall & Soskice, 2001; Jackson & Deeg, 2008). In a similar vein, drawing on the literature on institutional polycentrism, Batjargal et al. (2013, p. 1025) argue that the combination of multiple institutions has qualitatively different effects on outcomes than a single institution "because the confluence is characterized by dynamic interaction, mutual reinforcement, and a cointegrated and non-separable nature of diverse institutional rules and norms within the entire institutional order."

While traditional institutional accounts suggest that economic actors passively adopt and comply with the prevailing "rules of the game", neo-institutional theorists assign a more direct role to economic actors, not least entrepreneurs and business owners, and hence argue that agency has a greater influence in shaping institutions (Battilana, Leca, & Boxenbaum, 2009; Soleimanof, Rutherford, & Webb, 2018). From this perspective, economic actors seek to "play the game" and actively structure and manage institutions (Lubatkin, Lane, Collin, & Very, 2005; Williamson, 2000). For instance, Acemoglu and colleagues (2005) suggest that economic institutions, such as estate taxes, shape the incentives of key economic actors in society to invest and organize production. Since there is no guarantee that all individuals and groups will prefer the same set of economic institutions because different economic institutions lead to different resource distributions, there will typically be a conflict over the choice of economic institutions. In the end, political power will determine the prevailing economic institutions—in our case, a high versus low estate tax (Acemoglu et al., 2005).

In sum, when studying estate taxes as a regulative economic institution, it is paramount to take into account the interplay of cultural and normative factors as well as the interests of economic actors, which together shape the social context in which estate taxes are situated and ultimately determined. Hence, we are called to study multiple socio-economic factors in concert to explain country-level differences in estate taxes.

3.3.3 Socio-Economic Factors and Estate Taxes

Building on the above considerations about the causal complexity of how socio-economic factors shape the estate tax in a country, we advance a configurational model to explain variation in estate taxes on business transfers. In the following, we study countries' business context (Baumol, 1996; Carney et al., 2014) reflected in the level of (1) entrepreneurial activity and (2) business ownership, countries' culture (Hofstede, 2001; Petutschnig, 2017) via their orientation toward (3) individualism and (4) the long term, and (5) countries' level of wealth inequality (Benhabib et al., 2011; De Nardi, 2004; Piketty, 2000) as factors that together shape the level of the estate tax in a country.

Entrepreneurial activity. Estate taxes have been controversially discussed in relation to entrepreneurial activity, defined here as new venture creation (Baumol, 1996). Opponents of estate taxation typically argue that estate taxes reduce incentives for saving and motivate consumption near end of life, thereby institutionalizing weak incentives for the accumulation of wealth (Carney et al., 2014), such as via the creation of high-growth ventures. Opponents also contend that receiving an inheritance increases individuals' probability of being self-employed (Bruce & Mohsin, 2006; Holtz-Eakin, 1999; Holtz-Eakin, Joulfaian, & Rosen, 1994) because the financial constraints of entrepreneurs are alleviated in the case of a large-enough inheritance (Foster & Fleenor, 1996; Holtz-Eakin et al., 1994). From this standpoint, estate taxes imposed on business estates unduly reduce the stock of capital available for the creation of new ventures (Holtz-Eakin, 1999). We can assume that entrepreneurs themselves draw from the above arguments against estate taxes and take collective political action to promote their interests toward preserving their hard-earned, self-made wealth from entrepreneurship (Acemoglu et al., 2005). Opponents of estate taxes thus presume a negative link between entrepreneurship and estate taxes.

While advocates of estate taxes also refer to their relationship with entrepreneurship, they base their arguments on the equality of opportunity principle and concerns over the undemocratic consequences of wealth concentration in the absence of estate taxes (Carney et al., 2014). The fear is that without estate taxes, wealth becomes progressively concentrated in the hands of a small number of entrepreneurs and their families, which locks society on a path toward feudal levels of wealth stratification such that upward mobility via entrepreneurship is undercut (Piketty, 2000). Advocates of estate taxes thus assume a positive linkage between entrepreneurship and estate taxes. Hence, when seen from such an monocausal institutional perspective, the linkage between estate taxes and entrepreneurship is a priori indeterminate. As we explore below, combining entrepreneurial activity with other socio-economic factors allows to gain a better causal understanding of the linkage between entrepreneurship and estate taxes.

Business ownership. In contrast to new venture creation, business ownership relates to later-stage entrepreneurial activity—more specifically, the proportion of people in a country who own and manage established businesses (Harrington & Kew, 2017). Established firms, especially when they are small, are often confronted with unsatisfying returns, cashflow problems, and/or a high level of debt before they are transferred from one generation to the next, which reduces the attractiveness for heirs to take over operations from their parents (Getz & Petersen, 2004). Looming estate taxes likely intensify the propensity of heirs to discontinue a business, suggesting a negative link between business ownership and estate taxes. Family business research on the survival of established (family) firms supports this view. In their conceptual paper, Carney et al. (2014) suggest that family firm longevity decreases under high estate taxes since such taxation reduces and divides family assets, sometimes creating firm sizes that are less efficient and viable. Relatedly, Ellul et al. (2010) find that family firms reduce investments in the pre-succession phase to be able to afford estate taxes.

While family firms are affected by the institutional environment, this relationship is likely reciprocal such that family firms themselves affect institutions (Gedajlovic, Carney, Chrisman, & Kellermanns, 2012; Wright, Chrisman, Chua, & Steier, 2014). In fact, families in business have been said to wield substantial lobbying power to protect their interests (Morck, Stangeland, & Yeung, 1998), which may lead to crony capitalism (Kang, 2003), economic entrenchment (Morck et al., 2005), and economies under the control of oligarchic families (Morck & Yeung, 2004). Hence, high business ownership is likely linked to low estate taxes because entrenched owners are in the position to lobby against such taxes to preserve their family's influence and wealth across generations. In sum, when seen from such a monocausal, isolated viewpoint, we can conclude that business ownership likely has a negative link to estate taxes.

Individualism. Individualism indicates whether a country's society is oriented more toward the individual as opposed to the collective (Hofstede, 2001). In individualistic countries, individual interests, self-reliance, and independence are valued higher than collective interests (Hofstede, 2001; Triandis, McCusker, & Hui, 1990). Individualistic societies further value individual achievement (Triandis, Chen, & Chan, 1998), and members tend to agree less with collective goals and with policymaking that helps obtain such goals (Colombatto, 2012). Thus, individualistic countries likely oppose high estate taxes as a means to distribute wealth more evenly (Kalmijn & Saraceno, 2008). However, collectivistic countries likely do not mirror the arguments we developed regarding individualistic countries, reflecting causal asymmetry. In fact, we can conceive of collectivistic countries as advocates *and* opponents of low estate taxes. On one hand, collectivistic societies may be inclined to levy estate taxes as they are concerned with the well-being of the collective (Hofstede, 2001; Triandis, Bontempo, Villareal, Asai, & Lucca, 1988) and thus favor formal wealth redistribution, such as through estate taxes. On the other hand, we may expect that wealth redistribution takes place naturally in collectivistic societies even in the absence of estate taxation as the mutual support between group members is pronounced in such societies (Kalmijn & Saraceno, 2008).

Thus, from this isolated viewpoint, the effects of individualism — and in particular collectivism— on estate taxes are less clear, suggesting that these relationships are more causally complex and dependent on further socio-economic factors, such as a country's business context. For instance, collectivism in combination with high business ownership should support the natural redistribution of wealth within society, leading to lower pressure for wealth distribution and hence to lower estate taxes. Similarly, because collectivistic countries tend to ensure a more equal (re)distribution of wealth, such countries also provide more equal starting positions for entrepreneurs, which spurs entrepreneurial activity. Entrepreneurs' stronger political voice combined with more equal wealth distribution in collectivistic countries may thus reduce the demand and need for estate taxes.

Long-term orientation. Besides individualism, we expect a society's long-term orientation to be linked to estate taxes. Long-term-oriented societies define thrift and perseverance as core objectives and are associated with higher savings rates and stronger concerns about the future and future generations (Hofstede, 2001). Short-term-oriented societies, in contrast, prefer immediate gains, spending, and consumption and are less concerned about the future (Hofstede, 2001). We expect a country's long-term orientation via its concern for the future in combination with individualism to have a positive impact on individuals' saving behavior in later stages of life to preserve wealth for the next family generation. Thus, a higher savings rate toward the end of life in combination with an individualistic orientation likely leads such societies to be against estate taxation. In contrast, societies with a long-term perspective in conjunction with a collectivistic orientation likely support high estate taxes since the concern for the future is not limited to one's immediate family but to society at large. In sum, a country's temporal orientation may combine with its individualistic orientation to influence the level of its estate tax.

Wealth inequality. Estate taxes are frequently studied in combination with wealth inequality (e.g., Benhabib et al., 2011; De Nardi, 2004; McNamee & Miller, 1998; Piketty, 2000). The fear is that without wealth redistribution through taxation, inheritances will intensify wealth inequality since top wealth holders' affluence will constantly increase as beneficiaries capitalize on better opportunities that accrue with additional wealth (McNamee & Miller, 1998). From this perspective, "inheritance produces a cumulative economic advantage, reinforcing and extending existing wealth inequality across generations" (McNamee & Miller, 1998, p. 194). Estate taxes are then seen as an appropriate means to counter wealth inequality. Indeed, multiple studies find that estate taxes support the equal distribution of wealth (Benhabib et al., 2011; Cagetti & De Nardi, 2008; Cremer & Pestieau, 2006; Fevre, 2016; Piketty, 2000). Harbury and Hitchins (2012), for example, state that restrictions on bequests have a reductive effect on inequality, and Piketty (2000) suggests that steep estate taxes are required to reduce the intergenerational transmission of inequality through inheritance.

The positive effect of estate taxes on wealth equality is, however, not uncontested. Some studies find weaker or inconclusive results on the long-term implications of estate taxes for wealth inequality (Cagetti & De Nardi, 2009; Castaneda, Diaz-Gimenez, & Rios-Rull, 2003; Judd, 1985; Kopczuk, 2013). For example, Cagetti and De Nardi (2009) focus on the United States and find that while the estate tax tends to reduce wealth accumulation among the richest households, repealing the estate tax has only a small impact on the country's level of wealth inequality in the long run. Thus, the prevailing level of wealth inequality alone may not explain the level of the estate tax in a country. Above, we suggested that high levels of business ownership are linked to low estate taxes in part because business owners entrench themselves and lobby against the imposition of estate taxes. This linkage may be changed when considering country-level wealth inequality. In contrast to the entrenchment argument, we can also conceive and in practice observe opposing political pressures, such as in France or Germany (Beckert, 2008), whereby massive wealth concentration in the form of business ownership provides the basis for political lobbying in favor of countervailing estate taxes to restore a more egalitarian allocation of wealth (Cagetti & De Nardi, 2009; Hurst & Lusardi, 2004; Quadrini, 1999).[1]

Taken together, our considerations shed light on the complex interdependencies between socio-economic factors to explain estate taxes. It is such a higher-order understanding of the socio-economic context that stands in the way of further appreciating how various factors combine to influence the level of the estate taxes countries impose. It is against this background that we now turn to the empirical part of our paper, which enables us to paint an even fuller picture of different configurations that link to high or low estate taxes.

3.4 Data and Method

3.4.1 Sample and Data

We collected data on the estate tax in a respective country on January 1, 2016. We used policy capturing (e.g., Connelly et al., 2016) and sent a uniform case study vignette to tax experts in each country to collect our estate tax data. In line with Ellul et al. (2010), the study uses a succession scenario that is meant to reflect the typical succession of a small- to mid-sized business that is passed from one parent to his or her children. In line with the above definition of estate tax, we showed the tax experts the following scenario:

> *Bob Smith (58) is 100% owner of the business and is a resident of the capital city of your country.[2] The taxable value of the business is USD 10 million.[3] Bob has two children, Mike (28) and Molly (25). Unexpectedly, Bob passes away, and his will passes the company to his children, who are willing to continue running the business for at least the next 10 years.[4]*

[1] Germany is an interesting case in this respect. The International Monetary Fund (IMF, 2019) recently released a report suggesting that a central driver of Germany's growing wealth inequality is the continued control of family firms by the same families across time in combination with important inheritance tax exemptions for such business ownership (Economist, 2019a).

[2] The clarification about the location of the business considers within-country variance in estate taxes, such as in the United States or Switzerland.

[3] This amount takes into account that very small estates are sometimes tax exempt, such as in the United States. In the United States, for 2016, the estate tax (and gift tax) exemption was USD 5.45 million.

[4] The details regarding the children and continuation of the firm take into account that some countries impose an inheritance tax instead of an estate tax and further apply different inheritance tax rates depending on the successor's willingness to

We then asked the tax experts to calculate the maximum tax rate without exemptions in order to obtain a comparable basis for our analysis and to avoid biases tied to various types of tax exemptions, as discussed above.[1] As estate tax calculations can be complex, to ensure the accuracy of our data, we collaborated with a global accounting firm, specifically its private tax service line, which sent our survey to 77 tax experts around the world. For each country, we asked two local tax experts to calculate the estate tax rate together. The results were then presented to the global head of the private tax service line for review. As a further measure to ensure data quality, the results were shared among all members of the service line, who mutually commented on the responses. The results were then published on a public website.[2] From those 77 experts, we received responses with estate tax assessments for 67 countries (response rate of 87%).

Socio-economic data was collected for 2016 from the World Bank Open Databank (wealth inequality), the Global Entrepreneurship Monitor (entrepreneurial activity and business ownership), and Hofstede Insights (individualism and long-term orientation).[3] Excluding missing data, our final sample consists of 54 countries, as shown in Table 5.

3.4.2 Analytical Approach

Our study uses a set-theoretic approach based on fsQCA (Ragin, 2009). The basic intuition underlying QCA is that cases (here, countries) are best understood as configurations of attributes (here, socio-economic factors) that resemble overall types and that a comparison of cases as configurations of attributes rather than as isolated attributes is more suitable to explain outcomes (here, level of estate taxes). For instance, to explain what configurations lead to high estate taxes, QCA examines members of the set of "high estate tax" countries. In a next step, QCA identifies commonalities and

continue the business, such as in Germany. If the inherited business is sold prior to a set time, a higher inheritance tax is due than in the case when the business is continued.

[1] We also asked the tax experts to indicate the minimum estate tax rate, thus taking into account all possible exemptions. Including all exemptions significantly reduces the variance in our sample, as the large majority of countries (85%) have a minimum estate tax of 0% after applying exemptions, and the highest estate tax rate is 11.25%. With the low variance, we were unable to draw meaningful conclusions from our QCA analysis as no solution reached the minimum consistency threshold for high estate tax. These findings warrant an investigation of the determinants of tax exemptions, which is beyond the scope of our study.

[2] The website's name was www.familybusinesstaxindex.com; following punctual changes in estate tax regulation, the website was taken down in September 2018.

[3] The Global Entrepreneurship Monitor data was not available for some countries in 2016. We used the closest available earlier data for the following countries: Belgium, Czech Republic, Denmark, Dominican Republic, Iceland, Japan, Lithuania, Mexico, New Zealand, Norway, Philippines, Romania, Singapore, and Venezuela.

differences among attributes of these members and logically reduces them into a set of configurations that lead to the outcome (Fiss, 2011).

QCA has some advantages for the present study compared to more traditional regression analysis. First, it is well suited for small sample studies (Crilly et al., 2012). QCA also allows for two elements of causal complexity—namely, equifinality and asymmetry (Ragin, 2009). Equifinality means that alternative combinations of attributes can lead to the same outcome. Asymmetry means that the causes for the occurrence of an outcome are not necessarily the inverse of the causes leading to its absence. With QCA, we could thus investigate whether the motivations to levy high estate taxes differ from the motivations to levy low estate taxes. Recognizing the benefits of QCA when analyzing complex configurations, a growing stream of management (e.g., Fiss, 2011; Greckhamer, Misangyi, Elms, & Lacey, 2008; Misangyi & Acharya, 2014) and entrepreneurship research (Douglas, Shepherd, & Prentice, 2020) is applying QCA.

The empirical analysis proceeded as follows. First, we constructed the truth table, which shows all possible combinations of attributes and their frequency. We reduced the table based on two criteria: (1) the minimum number of cases required for a solution to be considered and (2) the minimum consistency level. For the first criteria, we used a minimum frequency of one case, which is considered appropriate for small-sized (N = 10 – 50) sample studies (Maggetti & Levi-Faur, 2013). The second criteria refers to the proportion of cases of each configuration that displays the desired outcome. The minimum recommended consistency threshold is 0.8 (Ragin, 2009), or alternatively, one can look for a natural break in the consistency levels of the configurations and identify the threshold after which the consistency level drops steeply (Crilly et al., 2012; Maggetti & Levi-Faur, 2013). We used the latter method and identified 0.79 (0.8) in our truth table as the natural break in the consistency level for high (low) estate tax, respectively. Overall, 14 (or 26% of the sample) exceeded the minimum consistency threshold for high estate tax and 12 (or 22%) for low estate tax. These reductions are in line with prior studies that report relative frequency counts (e.g., Fiss, 2011).

In the next step, we logically reduced the combinations in the truth table that lead to the desired outcome to simplified combinations using an algorithm based on Boolean algebra (Ragin, 2009). We primarily based our analysis on the intermediate solution that integrates easy counterfactuals, which refer to situations in which a redundant causal condition is added to a set of causal conditions that by themselves already lead to the desired outcome (Fiss, 2011). However, following prior studies, we also report the parsimonious solutions that integrate easy and difficult counterfactuals, the latter referring to situations in which a causal condition is removed from the set of causal conditions that lead to the desired outcome based on the assumption that this condition is redundant (Ragin, 2009). This differentiation allowed us to assess the strength of the empirical evidence (Fiss, 2011). We use the notation introduced by Ragin and Fiss (2009) to present our findings. The black circles represent the presence of a condition, and the white circles indicate its absence. Further, the size of each circle indicates if a factor is a core condition that shows up in the parsimonious and intermediate solution (large circle) or if a factor is a peripheral condition that only shows up in the intermediate solution (small circle). Blank fields indicate that the causal condition is not relevant for the outcome and may be present or absent.

3.4.3 Calibration

To conduct the fsQCA analysis, we needed to transform our variables into sets of membership using the process of calibration (Ragin, 2009). Calibration allowed us to rescale continuous variables into interval variables ranging from 1 (full membership) to 0 (full non-membership), with 0.5 being the crossover point of maximum ambiguity of membership. Whenever possible, we defined membership based on theoretical knowledge and, alternatively, based on empirical evidence. Following this procedure, we transformed all our variables into fuzzy sets as described below.

Estate tax. Our primary outcome variable is estate tax, measured as the maximum tax payable as per the above scenario. We created two fuzzy set measures for high and low estate tax. As there is no globally accepted conventional definition of what constitutes a high or low level of estate tax, we applied a sample-dependent anchor to calibrate the variable. First, for *high estate tax*, we chose the 75^{th} percentile, which is equivalent to 36% estate tax for full membership; the 25^{th} percentile, which is equivalent to 0% estate tax for full non-membership; and the median as the crossover point, which is equivalent to 10% estate tax. For *low estate tax*, we used the inverse coding: the 25^{th} percentile for full membership, the 75^{th} percentile for full non-membership, and the median as the crossover point.[1] Thus, full membership in low estate tax means that the country does

[1] We checked the robustness of our calibration by varying the definition of membership by +/- 5% of the observations, and the results remain qualitatively similar.

not impose any tax on inherited estates. We conducted a robustness check using 20% estate tax as full membership for high estate tax and as full non-membership for low estate tax, and the results remain consistent.

Entrepreneurial activity. We took the total early-stage entrepreneurial activity (TEA) from the Global Entrepreneurship Monitor Report (Harrington & Kew, 2017). TEA can be defined as the "percentage of the adult population between the ages of 18 and 64 years who are in the process of starting a business (a nascent entrepreneur) or [are an] owner-manager of a new business which is less than 42 months old" (Harrington & Kew, 2017, p. 16). The measure ranges from a minimum of 4.4% to a maximum of 19.6% in our sample. To calibrate TEA, we created a measure of membership for countries with high TEA and anchored the scale in our data. Specifically, we coded full membership at the 75th percentile (14.11%) and full non-membership at the 25th percentile (6.71%) and used the median as the crossover point (9.96%).

Business ownership. The data for this variable stems from the Global Entrepreneurship Monitor Report (Harrington & Kew, 2017). Business ownership is defined as the "percentage of the adult population between the ages of 18 and 64 years who are currently an owner-manager of an established business, i.e. owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months" (Harrington & Kew, 2017, p. 16). The measure ranges from a minimum of 1.4% to a maximum of 27.5% in our sample. To calibrate the variable, we created a measure of membership for countries with a high established business ownership rate and anchored the scale in our data. Specifically, we coded full membership at the 75th percentile (8.8%) and full non-membership at the 25th percentile (4.7%) and used the median as the crossover point (6.8%).

Individualism. We used Hofstede's (2001) measure for individualism, defined as the degree to which a country's society is oriented toward the individual and immediate family rather than toward the collective and collective goals. The higher the score, the more individualistic a country. To calibrate this variable, we created a measure of membership for countries with high individualism and anchored the membership thresholds in line with Hofstede (2001). As countries in the scale are distributed between 0 (collectivistic) and 100 (individualistic), we coded full membership at 75 and full non-membership at 25 and used 50 as the crossover point.

Long-term orientation. We used Hofstede's (2001) scale for long-term orientation, defined as the degree to which a country's society is oriented toward the future, with virtues like perseverance and thrift, rather than toward immediate gains and the present. To calibrate this variable, we created a measure of membership for countries with high long-term orientation and anchored the membership thresholds in line with Hofstede (2001). As countries in the scale are distributed between 0 (short-term orientation) and 100 (long-term orientation), we coded full membership at 75 and full non-membership at 25 and used 50 as the crossover point.

Wealth inequality. We used a country's Gini coefficient, a widely accepted measure of wealth inequality in a country (see De Nardi, 2004; Wolff, 1992). This measure ranges from 0 to 1, with 0 indicating perfect equality and 1 indicating perfect inequality. To calibrate wealth inequality, we created a measure of membership for countries with high wealth inequality and anchored the scale in our data. Specifically, we coded full membership at the 75^{th} percentile (0.8) and full non-membership at the 25^{th} percentile (0.691) and used the median as the crossover point (0.748).

3.5 Findings

3.5.1 Descriptive Results

Table 5 presents the countries in our sample with their respective maximum estate tax rates. While Spain (82%), Belgium (80%), and Japan (55%) present the highest estate tax rates, there are 20 countries with no estate tax. The mean of the estate tax is 19.1% (median 10%), and the standard deviation is 21.7%. Table 6 presents the descriptive statistics and correlations for all our variables. We find a weak negative correlation between wealth inequality and estate tax and a positive correlation between individualism and estate tax, which hints towards more causally complex relationships between our variables.

Table 5: Countries with their respective maximum estate tax in January 2016 (without tax exemptions)

Country	*Estate tax (%)*	*Country*	*Estate tax (%)*	*Country*	*Estate tax (%)*
Spain	81.6	Denmark	25	China	0
Belgium	80	Venezuela	25	Czech Republic	0
Japan	55	Argentina	21.95	Estonia	0
Germany	50	Poland	20	Hong Kong	0
South Korea	50	Philippines	19.99	India	0
Switzerland	50	Hungary	18	Indonesia	0
Luxembourg	48	Iceland	10	Israel	0
France	45	Lithuania	10	Jordan	0
Greece	40	Portugal	10	Latvia	0
Netherlands	40	Thailand	10	Malaysia	0
United Kingdom	40	Turkey	10	New Zealand	0
United States	40	Brazil	8	Norway	0
Slovenia	39	Italy	8	Romania	0
Finland	36	Bulgaria	6.6	Russia	0
Mexico	35	Croatia	5	Saudi Arabia	0
Ireland	33	Dom. Republic	3	Singapore	0
El Salvador	30	Australia	0	Sweden	0
Canada	29.38	Austria	0	Uruguay	0

Table 6: Correlations

	Variable	**Mean**	**SD**	**1**	**2**	**3**	**4**	**5**
1.	Maximum estate tax	19.12	21.73	1				
2.	Wealth inequality (Gini)	75.01	7.61	-0.26	1			
3.	Individualism	49.52	22.76	0.25	-0.16	1		
4.	Long-term orientation	49.69	22.26	0.19	-0.21	0.06	1	
5.	Entrepreneurial activity	10.54	4.42	-0.30	0.20	-0.16	-0.46	1
6.	Business ownership	7.49	4.18	-0.07	0.11	-0.11	-0.11	0.43

Correlations of 0.30 and above are significant at 0.05.

Table 7 presents the configurations of socio-economic factors that are consistently linked to high and low estate taxes respectively. Coincidentally, we find an equal number of solutions that lead to each outcome: Three configurations consistently link to high estate taxes (labeled Solution 1–3) and three configurations consistently link to low estate taxes (labeled Solution 4–6). We first discuss the results for high estate taxes by describing the solutions and discussing some overall implications. Next, we describe the results for low estate taxes following the same structure. In line with the notion of causal asymmetry (Ragin, 2009), opposite of the configurations that lead to high estate taxes do not lead to low estate taxes. In the last part, we then summarize the results for low and high estate taxes.

Table 7: Configurations of high and low estate taxes

	High estate tax solutions			Low estate tax solutions		
	1	**2**	**3**	**4**	**5**	**6**
Entrepreneurial activity	◦		○	●	○	•
Business ownership	○	●	●	•	◦	
Individualism	●	●	◦	○	○	○
Long-term orientation			◦			●
Wealth inequality	○	●	◦	○	●	●
Consistency	0.86	0.85	0.91	0.81	0.89	0.94
Raw coverage	0.25	0.24	0.19	0.14	0.23	0.22
Unique coverage	0.01	0.11	0.04	0.08	0.11	0.09
Overall solution consistency		**0.84**			**0.87**	
Overall solution coverage		**0.50**			**0.41**	

Frequency cutoff: 1; consistency cutoff: 0.78 (0.8) for high (low) estate tax solutions; solutions with unique coverage: 0 are not reported.

3.5.2 High Estate Taxes

Solution 1. We find that high estate taxes are linked to low entrepreneurial activity, low business ownership, high individualism, and low wealth inequality regardless of long-term orientation. Thus, for countries with more equal wealth distribution, high estate taxes are influenced by a combination of low business ownership and low entrepreneurial activity, which is in line with prior research suggesting that weak business sectors cannot muster the lobbying power to counteract high estate taxes (Soleimanof et al., 2018) and that high estate taxes dampen entrepreneurial activity (Chen et al., 2002; Holtz-Eakin, 1999). In contrast to the argument that individualism leads to lower estate taxes due to a higher acceptance of individual achievement and as a consequence more wealth inequality (Triandis et al., 1998), we find that this solution links high individualism to high estate taxes. High individualism combined with low wealth inequality may suggest that governments in individualistic countries perceive the need for social justice and thus the forced redistribution of wealth. Country examples for this configuration are Belgium and France. Both countries have high estate taxes at 80% and 45%, respectively, and combine low business ownership of 4% and 4%, low entrepreneurial activity of 6% and 5%, low Gini coefficients of 64 and 72, and high cultural individualism of 75 and 71, respectively.

Solution 2. We find that high estate taxes link to a combination of high business ownership, high individualism, and high wealth inequality. The presence or absence of a long-term orientation and entrepreneurial activity are not relevant for this solution. This solution challenges the idea that high business ownership is linked to low estate taxes, contesting the conceptual arguments by Carney et al. (2014) about this negative linkage. We find that high wealth inequality is associated with high estate taxes, which is surprising to some extent because estate taxes are typically seen as a redistributive measure (Benhabib et al., 2011; Cremer & Pestieau, 2006; Piketty, 2000). Country examples for this configuration are Finland and the United States. Both countries have high estate taxes at 36% and 40%, respectively, combined with high Gini coefficients of 77 and 86, high cultural individualism of 63 and 91, and high business ownership at 7% and 9%, respectively.

Solution 3. We find that high estate taxes are linked to countries with high business ownership and low entrepreneurial activity in combination with low long-term orientation, low individualism, and low wealth inequality. Similar to Solution 2, we find a positive link between high business ownership and high estate taxes, a finding that challenges previous studies (e.g. Carney et al., 2014; Ellul et al., 2010). Solution 3 combines high business ownership with low wealth inequality and low individualism, while we find the opposite for Solution 2. Solution 3 represents collectivistic societies in which business elites may not be sufficiently strong to lobby for low estate taxes as the community is given priority over individual interests (Hofstede, 2001), and the short-term focus favors gains for the collective in the present over concerns for future generations. Country examples for this configuration are Greece and Portugal. Greece (Portugal) has a high estate tax of 40% (10%) and combines a high business ownership rate of 14% (7%) with low entrepreneurial activity of 6% (8%) as well as a low Gini coefficient of 67 (71), low individualism of 35 (27), and low long-term orientation of 45 (28).

Comparison across Solution 1 to 3. Overall, our results provide nuanced insights into countries with high estate taxes. First, business ownership is a core condition in all configurations. We find that low business ownership combines with other factors to link to high estate taxes (Solution 1), which is in line with prior literature suggesting that individuals are discouraged from owning and continuing established businesses in the presence of high estate taxes (Ellul et al., 2010; Getz & Petersen, 2004). However, our analysis also reveals that in two solutions (Solutions 2 and 3) high business ownership is linked to *high* estate taxes. In the former case (Solution 2), estate taxes may be justified to counter wealth inequality and the fear of one-sided appropriation of wealth by entrenched business elites. In the latter case (Solution 3), estate taxes may be justified by collectivism and the need to help others in society in light of high rates of entrenched business owners. The latter finding is particularly noteworthy as it sheds light on the so far understudied role of cultural context in relation to estate taxes.

Second, we find that only *low* entrepreneurial activity forms part of the conditions associated with high estate taxes[1], which is in line with the prediction that estate taxes deprive societies of funds for entrepreneurial activity (Holtz-Eakin, 1999) and that small groups of entrepreneurs are unable to muster sufficient political power to impact estate taxes in their favor (Acemoglu et al., 2005). This finding challenges the widely held belief that the redistribution of wealth via high estate taxes is linked to higher levels of entrepreneurship (Economist, 2019b). Overall, it is interesting to observe that business ownership has a more pronounced role in the configurations that lead to high estate taxes than entrepreneurial activity.

Third, we find support for our conjecture that the influence of individualism on estate taxes is causally complex: two solutions (Solutions 1 and 2) exhibit high individualism and one solution (Solution 3) exhibits low individualism. Solutions 1 and 2 represent two distinct pathways for individualistic countries to justify high estate taxes. For Solution 2, we speculate that in individualistic countries with high business ownership, wealth is concentrated in the hands of a limited number of business owners who potentially wield strong lobbying power in the debate about estate taxes. However, advocates of estate taxes seem to outweigh those lobbying efforts and are able to counteract entrenchment in light of prevailing norms of egalitarianism and cooperation (Lubatkin et al., 2005), which points to the *principle of political compromise* between advocates and opponents of estate taxes. An example for this configuration is Finland. Finland levies an estate tax of 36%, which reflects a high, but still moderate taxation rate that facilitates the passage of family businesses to children. Having a moderate tax burden compared to other countries, business families are often more capable to pay the tax without having to sell off all or part of their family business and thus, ensure the

[1] For Solution 2, we find that entrepreneurial activity does not matter for the outcome of high estate tax.

continuation of the business, while at the same time redistributing some family wealth to the community (Davis et al., 1996). Similarly, the United States with a moderate estate tax of 40% are an example for this configuration that—similar to Finland—reflects the bargain between advocates of high estate taxes that favor social justice and equality of opportunities for all, and its opponents who favor moderate estate taxes to avoid that they crush the country's entrepreneurial spirit (Economist, 2019b). Thus, Finland and the United States well reflect the *principle of political compromise*.

In contrast, for Solution 1, the small sector of business owners seems to be unable to deploy sufficient political weight to lobby against a high estate tax. Rather, a strong drive for individual freedom, which is often combined with disrespect, even contempt, for the privileges of the establishment, as typically observed in France (Landes, 2008), favors the imposition of wealth-equalizing estate taxes. This configuration and the underlying motivation for the adoption of high estate taxes is aligned with Beckert's (2008) *social justice principle*, which he observed in France. The fact that France and Belgium, both French civil law countries, fall into this configuration in our own analysis lends credibility to these findings and arguments. For Solution 3, we suggest that it supports the view that collectivistic countries favor high estate taxes to ensure the well-being of the collective and a preference for forced and formal wealth redistribution to counteract the presence of entrenched business elites who prefer otherwise. This finding is in line with what we may call the *principle of collective primacy*.

Fourth, interestingly, we find that a country's long-term orientation matters little in conjunction with a high estate tax; it appears as a condition in only one solution. While we find that short-term-oriented countries are linked to high estate taxes (Solution 3), individualism appears to be the more critical cultural factor for characterizing countries with high estate taxes.

Fifth, the link between wealth inequality and estate taxes has been extensively discussed in the literature with inconclusive results (e.g., Benhabib et al., 2011; Cagetti & De Nardi, 2008; McNamee & Miller, 1998). Our results show that countries with high estate taxes cannot be uniformly associated with either high or low wealth inequality. Rather, it is the combination of wealth inequality with individualism and the level of business ownership that matters most for the adoption of high estate taxes. Thus, our results help explain the so far inconclusive results on the relationship between estate taxes and wealth inequality.

3.5.3 Low Estate Taxes

Solution 4. We find that low estate taxes are linked to high entrepreneurial activity and high business ownership combined with low wealth inequality and low individualism regardless of a country's long-term orientation. Solution 4 suggests that high entrepreneurial activity is linked to low estate taxes, which is in line with the idea that without estate taxes, entrepreneurial investments thrive and that strong entrepreneurial sectors lobby for low estate taxes. At the same time, an orientation toward the collective combined with low wealth inequality suggests that the redistribution of wealth takes place naturally within these societies, which spares the need to levy estate taxes for redistributive purposes. Country examples for this configuration are Romania and Uruguay that do not levy any estate tax and have a business ownership rate of 8% and 7%, entrepreneurial activity of 11% and 14%, and a Gini coefficient of 73 and 70 as well as low cultural individualism of 30 and 36.

Solution 5. We find that low estate taxes are linked to a combination of low entrepreneurial activity, low business ownership, low individualism, and high wealth inequality. Like for Solution 4, we find that a collectivistic orientation is one of the conditions for low estate taxes. However, in strong contrast to Solution 4, this solution combines low individualism with high wealth inequality, low entrepreneurial activity, and low business ownership—all of which are the opposite of the three conditions found in Solution 4. Solution 5 seems to represent emerging countries in which private business activity both in the form of new venture creation and the operation of established firms is underdeveloped and eventually undermined, which has indeed been found to stifle entrepreneurship (Brown & Ulijn, 2004; Mauro, 1995). Further, despite representing collective societies, these countries fail to naturally redistribute wealth in the absence of estate taxes. Country examples for this configuration are Russia and Malaysia. Neither Russia, nor Malaysia levy an estate tax, and both combine high Gini coefficients of 92 and 80 with low cultural individualism of 39 and 26, low business ownership rates of 5% and 5%, and low entrepreneurial activity of 6% and 5%, respectively.

Solution 6. This solution reveals that low estate taxes are linked to a combination of high entrepreneurial activity, low individualism, high long-term orientation, and high wealth inequality. Low individualism is a necessary condition for low estate taxes as it is present in all solutions. In Solution 6, low individualism is combined with high long-term orientation, a factor that is irrelevant in all other solutions that lead to low estate taxes. Long-term orientation combined with high entrepreneurial activity and high wealth inequality supports the notion that individuals, including entrepreneurs, living in long-term-oriented societies are focused on supporting future generations (Hofstede, 2001). Further, given the high wealth inequality, we speculate that governments have either limited interest or power to impose estate taxes to redistribute wealth or that the strong collective action of the entrepreneurial sectors in these societies successfully lobby for low estate taxes. Country examples are India and China that levy no estate tax and combine Gini coefficients of 82 and 88, respectively, with low cultural individualism of 20 and 48, high long-term orientation of 87 and 51, and high entrepreneurial activity of 10% and 11%, respectively.

Comparison across Solution 4 to 6. Overall, our analysis of countries with low estate taxes reveals that the configurations that lead to high estate taxes do not mirror those explaining low estate taxes, highlighting causal asymmetry. In particular, we find that entrepreneurial activity plays an important role in explaining low estate taxes but is less important in explaining high estate taxes; however, the opposite applies for business ownership. We find that two of the three solutions for countries with low estate taxes exhibit high entrepreneurial activity. This is in line with the argument that estate taxes reduce the stock of capital available for investments into new firms and undermine incentives for the accumulation of property and that strong entrepreneurial sectors take collective action to lobby against estate taxes. In further support of this argument, high entrepreneurial activity is not linked to high estate taxation in any solution.

Our findings are more mixed, however, for business ownership than for entrepreneurship. High business ownership is linked to low estate taxes only in collectivistic societies with low wealth inequality (Solution 4). This finding lends support to the *entrenchment principle*, suggesting that business owners have the power to successfully lobby against high estate taxes in order to protect their interests (Morck et al., 1998; Wright et al., 2014). In contrast, we find high business ownership to be linked to high estate taxes in individualistic societies with high wealth inequality (Solution 2). In this case, business owners may not be successful in their lobbying efforts as governments may see the need to impose high estate taxes to counteract wealth inequality. This finding is in line with Beckert's (2008) *social justice principle*, which we interpret as a boundary condition for the applicability of the lobbying principle of business elites.

Second, collectivism is a necessary condition for low estate taxes. However, the underlying logic to justify low estate taxes varies among societies. For instance, Solution 4 supports the notion that collectivistic societies naturally engage in wealth redistribution such that wealth is shared with the larger community rather than concentrated in the hands of a few individuals (Hofstede, 2001) and that a vibrant business sphere fosters the redistribution of wealth through salaried work and consumption (Meh, 2005). However, our solutions also show that this *natural redistribution principle* does not always apply since two of the three solutions include high wealth inequality. For instance, Solution 5 shows that collectivistic countries that do not exhibit a vibrant entrepreneurial sector nor strong business ownership face high wealth inequality in the absence of an estate tax. In these cases, one would expect corrective action in the form of taxation, but it remains unenforced by governments that look the other way, much in line with what we call the *negligence principle*.

In Solution 6, the prevailing wealth inequality in collectivistic societies may be explained by the *economic promotion principle*, which suggests that such countries, particularly those in emerging markets, forgo the implementation of high estate taxes, even at the expense of high wealth inequality, to foster entrepreneurship and with it the creation of wealth and higher economic status in the long term. A country example for this configuration is China. The absence of an estate tax reflects China's ambitions to develop into a prosperous nation, which requires a strong entrepreneurial sector and high-productivity growth even at the expense of higher wealth inequality (Foster-Simons, 1985). Giving entrepreneurs the freedom to accumulate income and to freely decide how to dispose of their income and property encourages labor productivity and hence increases national wealth. The interest of promoting productivity is also written into inheritance law in China as the government retains the ultimate right to review any division of an estate upon inheritance to ensure that productivity will not be adversely affected by the distribution (Foster-Simons, 1985). Similarly, India abolished the estate tax in 1986 primarily due to the very high bureaucratic burden and in an effort to stimulate entrepreneurial activities in the country to foster economic growth (The Economic Times India, 2017). Thus, the cases of China and India lend support to our economic promotion principle.

3.5.4 Putting the Pieces Together

In his qualitative study, Beckert (2008) exposes four institutional principles—namely, the family, equality of opportunity, social justice, and community principles—as outlined above. In the case of countries with high estate taxes, we find direct evidence for the *social justice principle* (Solution 1). However, we were unable to discern the family principle in our analysis. Instead, our study points to a blend of the equality of opportunity and community principles in countries with high estate taxes. In the case of the *political compromise principle* (Solution 2), which suggests that advocates and opponents of estate taxes forge a political compromise, we find a blend of the social justice and equality of opportunity principles in favor of taxation countered by economic arguments against estate taxes. In turn, the *collective primacy principle* (Solution 3) cannot be equated with the community principle defined by Beckert (2008). While Beckert’s (2008) community principle justifies tax exemptions when inherited wealth is allocated to philanthropic purposes, our collective primacy principle points to shared concerns for the collective, which requires the state to interfere with taxation to counteract entrenchment by a group of business owners.

The study of countries with low estate taxes is particularly revealing with regard to the prevailing institutional principles. We observe what we label the *natural redistribution principle* (Solution 4), which describes when wealth is naturally distributed within a collective society, and a vibrant business sector contributes to this reallocation through salaried work and consumption. Further, we point to the governmental *negligence principle* (Solution 5), whereby governments disregard high levels of wealth inequality, refrain from enforcing estate taxes, and look the other way, hoping for collectivism to restore equality. Finally, we find that estate taxes can also be deployed as economic policy instruments such that countries are willing to forgo estate taxes in exchange for entrepreneurship and higher economic prosperity in the long run (*economic promotion principle;* Solution 6). These considerations suggest that there are multiple pathways to justify estate taxes and that the pathways to low and high estate taxes do not mirror each other. Table 8 summarizes our findings for the six institutional principles upon which societies draw to justify high and low estate taxes.

Table 8: Institutional principles and underlying justifications for estate taxes

	Institutional principle	Underlying justification for estate taxes	Country description	Countries*
High estate taxes				
Solution 1	Social justice principle	Cultural norms of equality and a disregard for the establishment's call for equal wealth distribution	Weak entrepreneurial country with weak business ownership in an individualistic society that enjoys low wealth inequality	Belgium, France, Hungary, Italy, Spain, United Kingdom
Solution 2	Political compromise principle	Compromise between advocates pointing to equal starting conditions and meritocracy and opponents pointing to incentives and capital accumulation	Strong business ownership in an individualistic society with high wealth inequality	Germany, Finland, Netherlands, United States
Solution 3	Collective primacy principle	The well-being of the collective is central, which is best ensured by the formal imposition of an estate tax to counteract the interests of entrenched business elites	Weak entrepreneurial country with strong business ownership in a collectivistic society that focuses on the short term and enjoys low wealth inequality	Greece, Portugal
Low estate taxes				
Solution 4	Natural redistribution principle	Wealth is naturally shared within the community, and a vibrant business sector fosters wealth redistribution through salaried work and consumption	Strong entrepreneurial country with strong business ownership in a collectivistic society with low wealth inequality	Dominican Republic, Romania, Uruguay
Solution 5	Negligence principle	Wealth-equalizing estate taxation remains unenforced by a government that looks the other way and hopes collectivism will restore equality	Weak entrepreneurial country with weak business ownership in a collectivistic society with high wealth inequality	Hong Kong, Malaysia, Russia
Solution 6	Economic promotion principle	Willingness to forgo an estate tax in exchange for entrepreneurship and higher national economic prosperity in the long term	Strong entrepreneurial country with a collectivistic society that focuses on the long term and has high wealth inequality	China, India, Indonesia, Singapore

* List of countries that reflect the specific configuration of socio-economic factors for each solution.

3.6 Discussion

Estate taxes on business inheritance are regularly the subject of controversial debates. From a business perspective, estate taxes are typically seen as a counterproductive interference by governments that weakens entrepreneurial motivation (Bruce & Deskins, 2012) and imposes unfair double taxation on productive income (Cagetti & De Nardi, 2008), which harms long-term investment (Ellul et al., 2010) and the survival of private firms (Carney et al., 2014). Others, particularly economic sociologists, view estate taxes as necessary (some say a necessary evil) to create equal starting conditions for members of society, to preserve meritocracy in capitalist societies, and to counter the entrenchment of a small group of rich individuals and their families (Beckert, 2008; Landes, 2008). These debates are at least as old as estate taxes themselves, which can be traced back at least to the 19th century. Surprisingly, though, our understanding of international variation in estate taxes and, in this context, the roles of entrepreneurship and business ownership is severely limited.

Advancing a configurational model of estate taxes and using data from 54 countries, our study contributes to our understanding of cross-country differences in estate taxes on business inheritance and highlights the importance of treating low and high estate taxes as separate outcomes when developing theories. We discuss our findings and contributions in detail below.

First, prior research on estate taxes in the entrepreneurship and private firm literatures has primarily focused on the impact of estate taxes on investment levels and the survival of private (family) firms, finding negative implications (Carney et al., 2014; Ellul et al., 2010; Yakovlev & Davies, 2014). We complement this line of research by introducing countries' extent of entrepreneurial activity and business ownership as antecedents to estate taxes and study their impact on estate taxes in conjunction with other socio-economic factors, such as countries' culture and wealth inequality, while taking into account causal complexity (Beckert, 2008; North, 1990). We also acknowledge that economic actors, such as entrepreneurs and their families, are not only passive adopters of economic institutions, such as the estate tax, but can also seek to alter such institutions in their favor given their vested economic interests (Acemoglu et al., 2005; Battilana et al., 2009; Soleimanof et al., 2018; Wright et al., 2014).

Finding three distinct configurations that lead to high and low estate taxes, respectively, we illustrate the causal complexity and interdependent nature of the institutional determinants of estate taxes. For example, our analysis suggests that countries with high estate taxes combine an individualistic culture with either low wealth inequality and low business ownership (Solution 1; exemplary countries Belgium and France) or high wealth inequality and high business ownership (Solution 2; exemplary countries Finland and the Netherlands). These two solutions reflect two distinct underlying principles for high estate taxes in individualistic (hence mostly Western) countries. In the former case (Solution 1), with low wealth inequality and low business ownership, estate taxes may be justified primarily on the grounds of high individualism as proponents likely view estate taxes as a means to redistribute assets from the rich to the poor even at the cost of undermining private business ownership. This notion is in line with the idea of "égalité," which was propagated during the French revolution and is deeply enshrined in current political debates in French civil law countries (Beckert, 2008). In the latter case (Solution 2), estate taxes may be justified on the basis that a strong business sector naturally leads to the unequal wealth distribution, which drives governments to implement estate taxes as a counterforce to ensure equal starting conditions for all individuals, meritocracy, and more egalitarian wealth distribution. In such contexts, due to cultural norms of consensus decision making (Lubatkin et al., 2005), business elites may be unable or unwilling to deploy their lobbying power to reduce or outright abolish estate taxes when wealth inequality is high. This finding casts doubt on the argument that even in individualistic countries, most of them well-developed Western countries with robust legal and political systems, a class of entrenched business owners captures the state via ruthless political rent seeking, as hypothesized for Canada (Morck et al., 1998), for instance. Also, this finding challenges the prevailing view that high estate taxes inevitably undermine private business ownership (Carney et al., 2014).

Moreover, our study sheds further light on the controversial relationship between entrepreneurship and estate taxes. Advocates of estate taxes suggest that high estate taxes are linked to high entrepreneurial activity since they enable more equal starting positions in life by redistributing inherited wealth. However, our study does not find support for this perspective as only low entrepreneurial activity is linked to high estate taxes. Our configurations support the opposing view that high estate taxes lead to a loss of productive capital and lower incentives to start firms and thus to low entrepreneurial activity. Relatedly, we find that low estate taxes are linked to strong entrepreneurial activity (Solution 6), which provides further support for the opponents of estate taxes. In the case of China, for example, the government forgoes more equal wealth distribution through an estate tax to motivate entrepreneurial activity and national wealth accumulation. However, in one of the three solutions for low estate tax, low entrepreneurial activity is a core condition linked to low estate taxes (Solution 5). Thus, in countries like former communist Russia, long-time political regimes may have severely depressed private business activity and may solely count on collectivism as an equalizing force.

Further, our results indicate that the configurations leading to low estate taxes do not simply mirror the configurations that lead to high estate taxes, suggesting asymmetric causal relationships between estate taxes and the socio-economic factors. Specifically, while entrepreneurial activity is less relevant than business ownership in our configurations for high estate taxes, the opposite is true in our configurations for low estate taxes. Only in collectivistic societies with low wealth inequality, business ownership is linked to low estate taxes (Solution 4). In contrast, when wealth inequality is high or in individualistic societies, business owners may fail in their lobbying efforts against estate taxes as governments may see the need to impose high estate taxes to counteract wealth inequality, as observed in countries, such as Finland and the United States (Solution 2). These considerations highlight the importance of considering countries' business context with other socio-economic factors when studying estate taxes, an overlooked aspect of current research (Bruce & Deskins, 2012; Chen et al., 2002).

Second, we contribute to the economic literature on estate taxes and, more generally, inheritance law (e.g., Beckert, 2008; Piketty & Saez, 2013). With our quantitative analysis of estate taxation across 54 countries, we introduce cultural institutions as neglected determinants of estate taxes and show that countries' culture, in particular individualism versus collectivism, is a crucial antecedent that combines with other socio-economic factors to shape variation in estate taxes. For example, collectivism is a necessary condition for low estate taxes in all configurations, supporting the idea that in collectivistic countries, wealth is more naturally redistributed, which spares collectivistic countries the need to levy estate taxes (Solution 4). This redistributive effect of community culture has been overlooked in current debates about appropriate levels of estate taxation. However, natural redistribution is not always successful: two of the three solutions for low estate taxes exhibit high wealth inequality (Solutions 5 and 6). For instance, collectivistic countries, such as Russia or Malaysia, that do not exhibit a large private entrepreneurial sector nor a strong business ownership rate face high wealth inequality in the absence of an estate tax (Solution 5). However, in other collectivistic countries, such as China or India, high wealth inequality prevails despite a strong entrepreneurial sector (Solution 6). Governments in these countries seem to accept wealth inequality to support entrepreneurship in return for long-term national economic progress, an interpretation supported by the presence of high long-term orientation in this solution. Interestingly, in other configurations, countries' long-term orientation does not play an imperative role as a determinant of estate taxes, highlighting the variegated influence of cultural norms on estate taxes.

With our paper, we also seek to develop theory around the institutional principles upon which societies draw to justify high versus low estate taxes. Beckert (2008) exposes four institutional principles—namely, the family, equality of opportunity, social justice, and community principles—and our analysis reveals some overlap with his observations, such as for the social justice principle. However, due to its higher-level quantitative nature, our study also reveals other institutional principles for the Western countries we explored. For instance, in our analysis, the United States and Germany fall into what we label the political compromise principle in that advocates and proponents strike a political compromise and settle on some bargained estate tax. Our analysis on countries with low estate taxes reveals additional interesting institutional principles to justify estate taxes that go beyond Beckert's (2008) study, such as the natural redistribution of wealth through collectivism, the negligence of wealth inequality by careless governments that hope collective forces will restore equality, and the forgo of estate taxes as an economic policy device. These principles, as further described in Table 8, are amenable to future qualitative and quantitative work.

Third, we contribute toward disentangling the relationship between estate taxes and wealth inequality (Benhabib et al., 2011; Cagetti & De Nardi, 2009). Our results lend further evidence for a negative link between these two constructs. In line with prior research suggesting estate taxes as an effective means for reducing wealth inequality, our analysis finds that low wealth inequality is linked to high estate taxes and vice versa in two of the three solutions for both high and low estate taxes. However, we also find two solutions that challenge the predominant view that more equal wealth distribution is linked to high estate taxes (Benhabib et al., 2011; De Nardi & Yang, 2016). For example, our solution for countries like Finland and the Netherlands shows that a combination of high wealth inequality with high individualism and high business ownership is associated with high estate taxes. At the same time, a combination of low wealth inequality with low individualism and high entrepreneurial activity is linked to low estate taxes (for countries like Romania and Uruguay). These findings suggest that both low and high wealth inequality can be linked to high estate taxes, which calls for a nuanced discussion about the linkage between wealth inequality and estate taxes.

3.7 Limitations and Future Research

Our study does not come without limitations. For instance, we focus on the maximum estate tax in each country, so future research could explore tax exemptions. Further, estate taxes are the focus of dynamic political bargaining and may alter with swings in the dominant political preferences in a country. We encourage future studies to analyze other points in time to see if similar configurations emerge. In addition, there may be additional socio-economic factors related to estate taxes other than those studied here. Unfortunately, a small-sample QCA can only handle a limited number of factors. Future research could study, for example, countries' development stage, political orientation, opportunity versus necessity entrepreneurship (Nikiforou, Dencker, & Gruber, 2019), religious preferences (Weber, 2013), protection of property rights (Acemoglu et al., 2005; Mahoney, 2001), and type of legal system (Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998). Further, our study may face issues of reverse causality. Institutional theory provides a framework to understand how economic actors influence institutional contexts and vice versa (North, 1990; Scott, 2001). This nature of institutional theory makes it difficult to rule out reverse causality, and QCA models are not yet advanced enough to address potential reverse causality (Misangyi & Acharya, 2014). Nevertheless, we are confident in our results and our interpretations of them not least because some of our core explanatory variables, such as country culture, are background institutions that are rather stable over time (Greif, 1994; Guiso, Sapienza, & Zingales, 2006; Holmes, Miller, Hitt, & Salmador, 2013). Future research may study the impact of changes in estate tax regulations in the form of natural experiments or study estate taxes at several points in time.

3.8 Conclusion

Estate taxes levied upon business transfers are a controversially debated political and economic topic. With our study, we present a comprehensive configurational analysis of the determinants of estate taxes, and we advance a more nuanced understanding of the drivers of international variation in estate taxes and the particular role of entrepreneurs and business ownership therein. We hope our study spurs more research at the intersection of regulative institutions, entrepreneurship, and the transfer of business wealth across generations—a topic with both wide scholarly and societal relevance.

4 Sudden Death – Unexpected Succession in Owner-Managed Firms

Maximilian Groh

4.1 Abstract

Although it is estimated that more than every tenth business succession is initiated by the sudden inability of the owner-manager to continue managing the business, our understanding of the phenomenon and in particular the process and challenges of unexpected succession is limited. Analyzing seven small- and medium-sized Swiss enterprises using a qualitative comparative multi-case study approach, this study presents a comprehensive process model structuring unexpected successions. In addition to revealing a six-steps process, the analysis highlights specific challenges associated with each step as well as mechanisms to facilitate a successful unexpected succession. The analysis further identifies the involvement and commitment of family-successors, the support from key employees, the development of governance and business structures as well as the financial situation of the firm as decisive factors to facilitate a successful unexpected succession. With the presented findings, the study provides new insight into the process of unexpected succession, extends existing studies on the phenomenon and contributes to the literature on firm resilience and (family business) succession.

4.2 Introduction

"Succession is not an accident nor an event but a sophisticated process occurring over a very long period of time. It is a long-term dynamic issue that requires an ability to constantly adapt in the light of evolving circumstances." (Le Breton-Miller et al., 2004, p. 324)

Due to the sophistication and time-intensity of succession processes, owner-managed firms often face tremendous challenges when it comes to their succession and are in many cases unable to successfully manage the transition to either the next generation or a suitable family-external successor (Schulze & Zellweger, 2020; Wennberg, Wiklund, Hellerstedt, & Nordqvist, 2011; Zellweger, 2017). This process, however, becomes even more challenging if the succession is suddenly initiated by the unforeseen inability of the owner-manager to continue managing the firm, either due to a sudden death or severe illness, prompting an unexpected succession. Presenting an immense shock to the business, the unexpected succession elicits tremendous time pressure and prompts uncertainty with regards to the future of the firm.

Previous studies that have addressed the topic of unexpected succession have mainly focused on the quantitative effects of a sudden death or a hospitalization of the CEO or director on firm performance (see Bennedsen et al., 2006, 2012) or changes in stock prices (see Johnson et al., 1985; Nguyen & Nielsen, 2010; Salas, 2010). These studies, however, give only limited insight for the context of owner-managed firms, as a CEO's sudden departure significantly differs from that of an owner-manager. The owner-manager's parallel involvement in management *and* ownership makes the transition much more challenging, since the CEO not only is the head of the company, but also the main if not the sole owner of the firm (Schulze & Zellweger, 2020). This burdens the succession with a plethora of additional questions and issues that are absent in the case of a sudden CEO transition.

Further, these studies do not address the underlying processes regarding the unexpected succession. Family business research has extensively discussed the topic of planned succession, focusing on a wide variety of aspects, such as process-related models (Halter & Schröder, 2017; Le Breton-Miller et al., 2004; Zellweger, 2017), challenges (De Massis, Chua, & Chrisman, 2008; Ellul et al., 2010), or strategies for planning a successful transition of control (Handler, 1990; Hartley & Griffith, 2009). The existing planned succession models have, however, only a limited applicability to successions that are abruptly initiated by the unanticipated death or illness of the owner-manager, as there are several fundamental differences. Not only does the shock of an unexpected succession put the business under considerable time pressure and stress, making a preparation of the firm for a succession process impossible, but there is also no structured handover and transition between incumbent and successor in an unexpected succession. Our understanding of the phenomenon and especially the process of an unexpected succession in the context of owner-managed firms is thus limited.

Following calls to better understand the phenomenon (Steier, 2001), this study uses a qualitative comparative multi-case study approach (Eisenhardt, 1989) to develop a process model depicting the different steps in an unexpected succession. This approach is in line with suggestions to apply qualitative methods, where knowledge about a phenomenon is shallow or fragmented, current perceptions seem insufficient or are in conflict with each other, or if an already researched topic needs a fresh point of view

(Eisenhardt, 1989; Punch, 2013). Additionally, to reconstruct and understand the process of a past event, it is necessary to analyze the experiences of the individuals that were personally involved. Consequently, this study investigates seven small or medium-sized Swiss businesses that successfully managed an unexpected succession. The study analyzes data gathered from semi-structured interviews with two persons per enterprise—the successor and one other individual that was closely involved in the process.

With this study, I contribute to a more refined understanding about the phenomenon of unexpected succession by providing a comprehensive model depicting the process of unexpected successions in owner-managed firms. I thereby contribute to the literature on (family firm) succession (Handler, 1990; Le Breton-Miller et al., 2004; Zellweger, 2017) that has largely focused on developing process models for planned successions. I further generate novel insight into the underlying challenges and mechanisms, extending previous quantitative studies on the effects of unexpected successions on firm value and performance (Bennedsen et al., 2006, 2012; Johnson et al., 1985) by providing a complementary qualitative perspective. Additionally, this study contributes to the broader literature on organizational resilience (Chrisman, Chua, & Steier, 2011; Folke, 2006; Ortiz-de-Mandojana & Bansal, 2016) by investigating the continuity of firms in light of a severe shock inside the organization and therefore providing insight on what makes an owner-managed firm more resilient. Lastly, this study also provides a basis for contingency planning for practitioners either active as an owner-manager in or an advisor to small or medium-sized businesses.

4.3 Theoretical Background

4.3.1 Unexpected Succession

An unexpected succession occurs when the succession process of a business is abruptly initiated by the unanticipated death or illness of the entrepreneur, making it necessary to find an immediate solution for the transition of control to ensure the survival of the firm (Kreter, 2017; Steier, 2001). There are several aspects that make the phenomenon fundamentally different from the process of a planned succession. Most importantly, while in a planned succession the incumbent plays an important role in preparing the business for the transition, finding a suitable successor, and supporting the process to safeguard its success (Zellweger, 2017), the predecessor is not part of the process in an unexpected succession. Thus, one of the most important success factors is unavailable (Kreter, 2017). In addition to the lack of support from the incumbent, the unexpected succession demands immediate action to safeguard the continuation of the firm, making an accelerated process necessary, while a planned succession is seen as long-term transitional project (Habig & Berninghaus, 2010; Zellweger, 2017). What both processes have in common, however, are the wide array of issues as well as stakeholders impacting the process of the succession.

While there are no explicit statistics on what share of successions is initiated on the basis of an unexpected death or illness of the entrepreneur, a small number of studies has presented estimates. Most prominently, Hauser et al. (2010) who estimated on the basis of data from the Institute for Mittelstandsforschung that in Germany approximately every tenth succession happens because of the unexpected death or illness of an entrepreneur. Mandl et al. (2008) present similar numbers for Austria and estimate that 14% of successions are unexpected.

Despite its practical relevance, literature on unexpected succession shows only a fraction of contributions compared to the topic of planned successions. These contributions have mostly focused on the quantitative effects of a sudden death or a hospitalization of executives and directors on firm performance (Bennedsen et al., 2006, 2012; Mahajan & Lummer, 1993) or changes in stock prices (Johnson et al., 1985; Nguyen & Nielsen, 2010; Salas, 2010) or are practitioner-oriented reports presenting contingency plans (Gubler, 2012; Habig & Berninghaus, 2010). The quantitative studies have shown that management departures in general result in instability and may negatively affect firm value (Mahajan & Lummer, 1993). Measuring the impact of CEO deaths on company profitability, Bennedsen et al. (2006) further find that the death of senior executives in management positions causes a statistically and economically significant decline in firm operating profitability, asset growth and sales growth. In the two-year window around executive deaths, profitability fell by an average of 9.6% (Bennedsen et al., 2006). Focusing on a similar setting, the authors measured in a later study how a hospitalization of a CEO affects the company performance, revealing that if the absence of the executive is five days or more, a significant negative effect on the average operating return on capital by 1.35% can be observed (Bennedsen et al., 2012).

While these quantitative studies give only limited insight with regards to the context of owner-managed firms and have largely disregarded the mechanisms and processes associated with an unexpected succession, practitioner-oriented contributions presenting contingency plans (see Gubler, 2012; Habig & Berninghaus, 2010) have recently given more attention to presenting recommendations to prepare for the event of an unexpected succession. While these recommendations might be helpful from an ex ante perspective, they give little insight about what happens when the firm is suddenly confronted with an unexpected succession. To the author's knowledge, there is only one qualitative study that has analyzed the phenomenon of unexpected successions from an ex post perspective. While Kreter (2017) extends the research by analyzing German firms that were involved in an unexpected succession, his study focuses on social orders and power structures between employees and successors. The author proposes a typology of different succession types for unexpected successions, emphasizing that the successors and the employees are the decisive driving forces for success (Kreter, 2017). However, the study's focus on social order and power structures of unexpected successions does not provide insights into the entire process of an unexpected succession and associated steps, which motivates this study.

How organizations deal with unpredictable occurrences is also one of the focal question in the literature on organizational resilience (Chrisman et al., 2011; Folke, 2006; Ortiz-de-Mandojana & Bansal, 2016). Research in the field has focused on a firm's reaction to unpredictable events, such as shocks in the supply chain (Pettit, Fiksel, & Croxton, 2010), natural disasters (Butts, Acton, & Marcum, 2012) or even terrorist attacks (Gittell, Cameron, Lim, & Rivas, 2006). However, there seem to be no studies on how firms deal with a severe shock initiated by the loss of the owner-manager, representing a disruptive event coming from within the organization in the context of owner-managed firms.

4.3.2 Existing Process Models

Several models have been developed that design the succession process along various steps or stages (see Halter & Schröder, 2017; Zellweger, 2017). These models focus predominantly on the dyadic interplay between the incumbent and the successor, presenting presumably optimal sequences of steps to foster a successful planned succession. Since there is no interaction between successor and incumbent in an unexpected succession, as the incumbent is not part of the process, these models are unable to depict the phenomenon in a comprehensive way. However, existing process models may serve as an appropriate and suitable starting point for this study with regards to the main aspects that play an important role in successions in general. Although, most of the various normative and theory-based models differ with regards to their degree of detail and focal aspects, as well as the number and duration of the process steps, there seem to be a consensus concerning certain reappearing activities as well as the main phases of the process, which are usually divided in a preparation, development and transfer phase (Viehl, 2004). Especially the models developed by Handler (1990), Le Breton-Miller et al. (2004) as well as Zellweger (2017) are fitting to identify these essential steps in the process of succession. The models focus on specific stages, activities and respective challenges ranging from initial succession preparations to the transfer of the business.

1) Defining vision for the future and clarify goals & priorities. In the beginning, most models emphasize the importance of setting the framework for the planning of the succession. The first step thus consists of clarifying the general goals and priorities of the incumbent (Zellweger, 2017) as well as setting ground rules for a shared vision of the future business (Le Breton-Miller et al., 2004). At this stage, it is important to define the preferences regarding the succession option—family internal (FBO), business internal (MBO) or business external (MBI)—which is particularly essential, as the required time for the transition varies with different options (Halter & Kammerlander, 2014; Zellweger, 2017). While on average an MBI only takes one to two years and an MBO two to five years to complete, an FBO is by far the most time-consuming succession option with a process time that may last up to ten years (Zellweger, 2017). The predecessor then has to determine a range of potential successors, while defining guidelines for the selection and timing (Le Breton-Miller et al., 2004; Zellweger, 2017). Some models see this step independent from potential successors (e.g., Handler, 1990), while others assume that possible candidates are already in the picture or even selected (e.g., Le Breton-Miller et al., 2004).

2) Preparing the firm & the potential successor for the transition. In the second step, the business as well as the successor need to be prepared for the transition. On the business side, it is essential to review the firm's strategy to lay the foundation for future success (Zellweger, 2017). It is crucial to prevent negative effects of the succession which might emerge due to a leadership vacuum or an unbalanced product/market portfolio (Zellweger, 2017). On the successor side, the focus lies on the development of skills of the potential successor(s) with regards to the needs of the company. The goal is to develop the successor's abilities through formal education, training programs, or apprenticeships, if skills need to be developed before the successor can take over the necessary responsibilities (Le Breton-Miller et al., 2004). The goal of this second step is to achieve a fit between the vision for the business and the abilities and desires of the successor.

3) Planning the transition of responsibilities. A succession is an ongoing role adjustment process between the predecessor and successor (Handler, 1990). This third step thus focuses on the planning of the transition of responsibilities regarding the functional roles and governance of the firm (Zellweger, 2017). This step is crucial as it defines the timeline for the transition and sets the basis for the firm entry and assimilation process of the successor (Handler, 1990; Zellweger, 2017). In many cases, a governance roadmap is used to outline the different roles for each year of the planned succession, to structure the process in a comprehensive way, taking into account that the duration of the transfer of responsibilities may differ greatly with regards to the respective succession option (Zellweger, 2017). Continually, the responsibilities transition from the predecessor to the successor, in that the incumbent's role changes from the sole operator, to the monarch, to the overseer, to the consultant, while the successor develops from having no role to a helper, then manager and, ultimately, the new leader of the business (Handler, 1990). It becomes apparent that in an optimal succession the assimilation process is characterized by a period of parallel firm involvement and cooperation between the incumbent and successor, where both individuals are active in the firm to smoothen the transition.

4) Defining the transaction price and ensuring financing. Finding a feasible transaction price for a business succession can be a difficult undertaking as it often goes beyond a sole valuation of the firm's financial assets. While the attractiveness of the firm as well as the existing demand in terms of the number of potential and willing successors or buyers influence the transaction price, there are several other drivers that need to be taken into account (Zellweger, 2017). Especially in family firms and owner-managed businesses, the type of succession, the emotional attachment of the incumbent and financing possibilities of the successors are important factors (Zellweger, 2017). Regarding the succession options there might be a family discount if the business is handed down to the next generation, or a strategic premium if the buyer of the business is a competitor in the market (Zellweger, Richards, Sieger, & Patel, 2016). Further, the incumbent might associate strong emotions with the business succession that might influence the price either positively, if the incumbent feels a loss of benefits such as status and control, or negatively, if the incumbent sees the succession as an opportunity to ensure the future of the firm (Zellweger, 2017). Lastly, the transaction price might also be influenced by the ability of the successor to finance the succession. If the preferred successor cannot secure the necessary funds, the incumbent might have to adjust the transaction price or help finance the succession (Zellweger, 2017).

5) Structuring the tax and legal setup. In spite of far-reaching country-specific differences, a succession must always consider the respective tax and legal framework, which might further vary with regards to the type of successor. In case of a family internal succession, especially the tax implications with regards to gift taxes, as well as inheritance or estate taxes need to be taken into consideration (Zellweger, 2017). A sale to a non-family successor, however, might make a specifically elaborated sales agreement or contract more fundamental (Zellweger, 2017).

The process of a planned succession can be generally structured along these five previously presented steps, based on a synthesis of the discussed process models. To sum up, the planned succession is based on a structural process that usually takes a number of years and in which the incumbent plays a crucial role. Both aspects are not possible in case of unexpected successions. Unexpected succession processes, however, received very little research attention in the past. We thus have a limited understanding of how the processes of an unexpected succession unfold and how such a succession process can still be successful, despite the tremendous shock forced on the business itself and the individuals involved. This study aims to fill these important gaps in the literature and develop a process model for unexpected successions based on multiple case studies and derive proposition on mechanisms that facilitate a successful unexpected succession.

4.4 Data and Method

4.4.1 Research Design and Sample

To study the phenomenon of unexpected succession and to develop a process model in the context of small and medium-sized businesses, this study applies an exploratory qualitative research approach (Miles & Huberman, 1994; Yin, 1994) and more specifically, follows a comparative multi-case study method (Eisenhardt, 1989). This approach is utilized for two reasons. Firstly, as knowledge about the phenomenon is shallow, fragmented and current perceptions seem insufficient or are in conflict with each other, a qualitative research approach is recommended (Eisenhardt, 1989; Punch, 2013). Given the scarcity of extant theory, the multi-case study approach allows through its comparative nature for more generalizable results and theory building (Yin, 1994, 2011). Secondly, this study aims at developing a process model for unexpected successions, thus requiring an in-depth analysis of the companies as well as the experiences of the involved individuals, which would not be possible with quantitative methods. This approach is further in line with previous studies focusing on similar research goals (see Kammerlander, Dessi, Bird, Floris, & Murru, 2015).

The study builds on a sample of seven owner-managed Swiss firms that were involved in an unexpected succession in the past and were able to successfully manage the transition. The deliberate focus on successful firms, whereas success is defined as the survival of the firm, was chosen to enable the identification and analysis of the complete process of unexpected successions, which might not have been possible if the process was interrupted due to a discontinuation of the business and failure of the succession. Further, it allows to derive best-practices on how to manage an unexpected succession. All firms in the sample were small or medium-sized enterprises (SMEs) with the number of employees ranging from six to 60, with an average of 23 employees. The focus on small or medium-sized owner-managed firms as the unit of analysis, is founded in the fact that they are likely to be more severely affected by an unexpected loss of the owner-manager compared to larger firms with diversified ownership, where firm success is lesser dependent on one individual executive (see Schulze & Zellweger, 2020; Zellweger, 2017). Studying the phenomenon in this specific research context thus allows for a more specific analysis of the process as well as the associated challenges and mechanisms. In four of the seven cases the unexpected succession was initiated by health-related issues, while the other three cases were related to accidents. Table 9 provides an overview of the different cases in the sample with their respective characteristics.

Table 9: Case studies with characteristics

#	Company description	B2B / B2C*	# Employees	Cause of event	Year of event
1	Firm in the textile and fashion industry	B2C	20	Sudden heart failure	2009
2	Firm in the construction and restoration business	B2C	6	Sudden heart failure	1994
3	Firm in the transport and mobility sector	B2C	10	Death caused by traffic accident	2000
4	Manufacturer for medicinal herbs and spices	B2B	60	Sudden heart attack	2009
5	Firm specialized in organic cultivation and agriculture	B2B/B2C	15	Helicopter crash	1994
6	System supplier specializing in plastic injection molding and mold making	B2B	11	Brain tumor that caused inability to communicate, subsequent death	1999
7	Special training center for the metal construction industry	B2B / (B2C)	41	Plane crash	2018

*B2B refers to Business-to-Business models; B2C refers to Business-to-Customer models

4.4.2 Data Collection

Between December 2017 and November 2019, 14 semi-structured interviews were conducted with individuals that were closely involved in the process of the unexpected succession—in most cases family members of the incumbents or key employees, as well as the successors who ultimately took over the business. The interviews lasted between 40 and 90 minutes and were conducted in person. All interviews followed an interview guideline that was continuously adapted over the process of data collection. The interviewees were first asked to provide an overview of the history of the firm, as well as the situation before the event of the unexpected succession. The interviewees were then asked to describe the process directly after the event and provide information on specific topics such as the different roles and responsibilities of the individuals involved, immediate challenges that the firm faced, and the continuous process of the transition. During the interviews, particular attention was payed to intervene as little as possible and allow for flexibility during the interviews in order to encourage the interviewee to share as much information as possible. For this reason, open-ended questions were asked to generate narrative answers. All conversations were recorded with the consent of the interviewees and subsequently transcribed after the interview. Conventional transcription rules were followed in order to maintain a high quality, scientific rigor and transparency of the research process (Kuckartz, 2012). The interviews were conducted in Swiss German to provide a natural flow of the conversation and were subsequently transcribed into German. The introduction, as well as the outro was not transcribed for lack of relevance for the research project. To triangulate the findings (Eisenhardt, 1989; Jonsen & Jehn, 2009), we used additional sources of information, such as press articles, firm-specific documents and public reports.

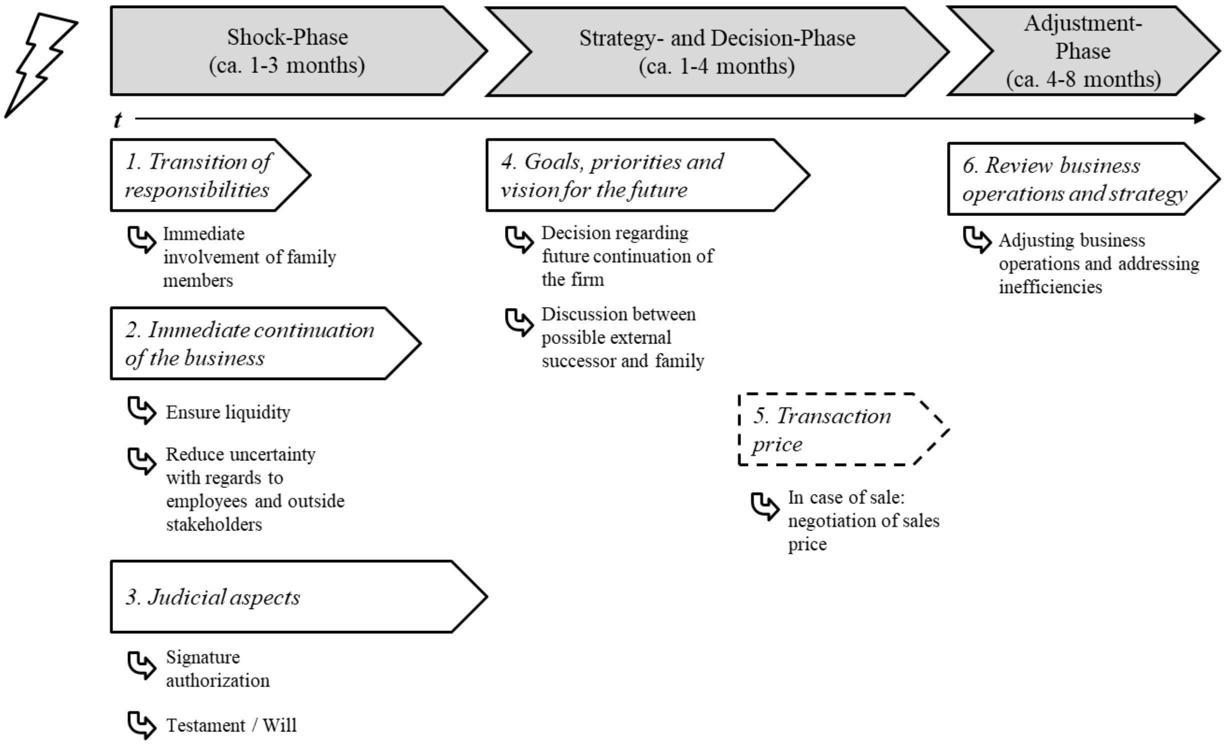
4.4.3 Data Analysis

To analyze the data, this study applied a qualitative content analysis by coding the interview transcripts according to the following steps (Kuckartz, 2012; Punch, 2013). In a first step, the qualitative data was examined on a case-by-case basis to achieve an initial overview and understanding of the existing data (Kuckartz, 2012). While focusing on the research question the transcripts were screened and initial notes were taken. In a second step of the data analysis, thematic main categories were developed (Kuckartz, 2012). These categories were deductively formulated from the interview guideline as well as inductively developed on the basis of emerging themes during the initial screening of the data (Kuckartz, 2012). In a third step, the qualitative data was fully coded with the QDA-software MAXQDA on the basis of the main categories developed by assigning individual text sections to the respective categories (Kuckartz, 2012). While several categories or codes were assigned to text sections, others remained uncoded if they were irrelevant for the research purpose. After the first coding, all text passages that were coded with one or more categories were compiled (Kuckartz, 2012). On the basis of this compilation, each of the main categories or main codes was then differentiated and extended by subcategories. The inductive extension of the existing code list allowed a more structured analysis of the qualitative data (Kuckartz, 2012). Once theoretical saturation (Glaser & Strauss, 2017) was reached in that no new themes emerged, the complete data material was recoded using the refined category catalogue. This step constituted both the conclusion of the coding process and the beginning of the subsequent content analysis and presentation of results (Kuckartz, 2012).

4.5 Findings

This study aims at investigating the process of unexpected succession in owner-managed SMEs. Based on the patterns identified in our analysis, I suggest a six-step process, which emerged from the exploratory study. Figure 3 presents the developed process model with an overview of the steps and their sequential order. Figure 4 further illustrates the comparison between a planned succession, as discussed above, and an unexpected succession. Table 10 further provides exemplary quotes from the interviews that were representative for the different process steps and their respective sub-topics. Additionally, a summary of the characteristics of the different cases is presented in Table 11.

Figure 3: Process model of unexpected succession



The process of an unexpected succession can be clustered in three different phases that each have their corresponding process steps, as illustrated in Figure 3. The succession process is instantly triggered after the unexpected event and starts the *Shock-Phase*. The family of the owner-manager as well as the employees of the firm are suddenly confronted with tremendous emotional stress and pressure. The unexpected event elicits enormous uncertainty with regards to the future of the firm, which characterizes this first phase. There are three process steps in the Shock-Phase of the succession that simultaneously need to be addressed. The process starts with the immediate transition of responsibilities, as from day one after the unexpected event, someone else—in most cases the wife (or widow), the children of the owner-manager, the business partner or a key employee in the business—has to take over control of the firm in order to fill the leadership void (step 1). The firm has lost its primary decision maker and needs someone to restore the firm's ability to act. Simultaneously, it is necessary to take measures to ensure the operative continuation of the daily business (step 2) by securing the liquidity of the business and managing internal as well as external stakeholders. Further, judicial aspects regarding the transition, such as the aspect of signature authorization, access to company accounts, or in case of the death of the owner-manager, testamentary and inheritance related aspects, need to be addressed immediately (step 3). While the transition of responsibilities takes place in the first days after the event, resolving the judicial aspects can take up to several months, especially if inheritance related issues need to be resolved. This leads to an approximate duration of the Shock-Phase of one to three months.

With the most pressing issues resolved and the short-term continuation of the business secured, the *Strategy- and Decision-Phase* follows. This second phase is characterized by the necessity to decide on the long-term solution and future vision of the firm, taking into account the different goals and priorities of the family and other stakeholders involved (step 4). This step should result in a decision regarding the future management and ownership of the business and might entail discussions with potential outside successors. The next step in an unexpected succession strongly depends on whether the family of the deceased decides to continue or sell off the business. If the family decides to sell the business, either to a family member, an employee or an external party, the next step is to determine the transaction price (step 5). If, however, the family decides to continue the business in the current ownership constellation, this step is skipped altogether as the family members have already inherited the business. Depending on the decision regarding the continuation of the firm, the Strategy- and Decision-Phase approximately takes between one and four months.

The final phase of an unexpected succession—if sold or continued—is then the *Adjustment-Phase*, which is characterized by actions to align the company to achieve the goals and vision declared in step 4 by reviewing the firm's business operations and strategy and initiate adjustments to structures and processes to address inefficiencies (step 6). As this phase entails ongoing adjustments to the firm, it approximately lasts between four and eight months.

Figure 4: Planned vs. unexpected succession

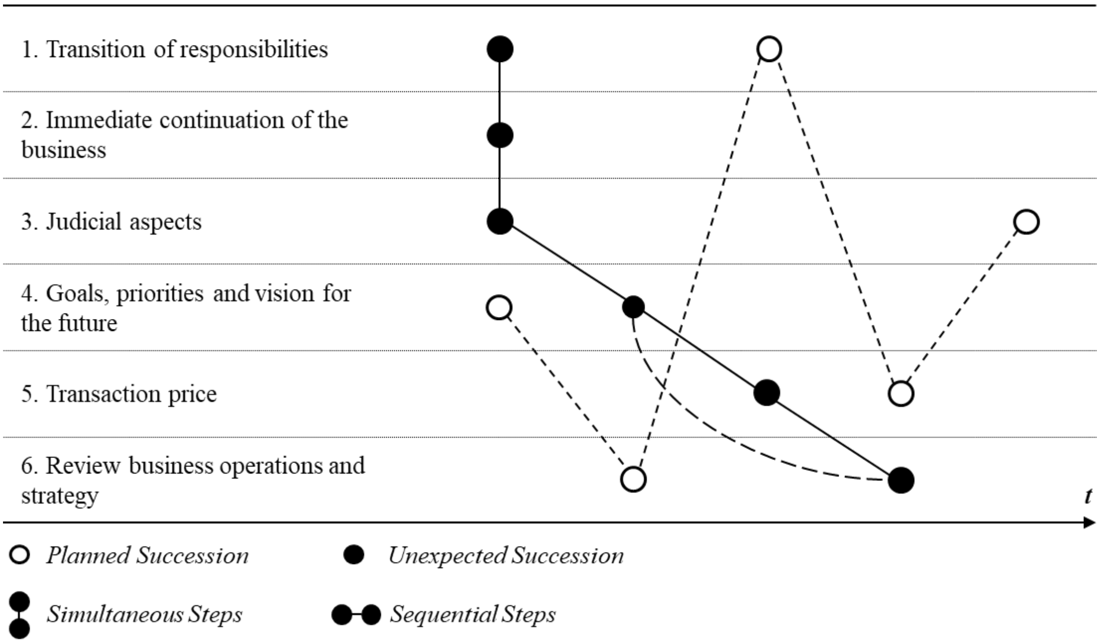


Figure 4 illustrates that there are fundamental differences when comparing a planned versus an unexpected succession process. Not only are there different topics that need to be addressed in the process of an unexpected succession, such as securing the immediate continuation of the firm, but there are also variations with regards to the sequence of steps. While the process of a planned succession usually starts by defining the goals, priorities and vision for the future, the process of an unexpected succession begins with three simultaneous steps, as the sudden inability of the owner-manager to continue the business brings forth various topics that need immediate attention after the event. Two of them being the transition of responsibilities as well as managing the judicial aspects, which in a planned succession both happen at a far later point in the process, with legal aspects usually being the final step. The process of an unexpected succession then continues with defining the goals, priorities and vision for the future, which resembles the first process step in a planned succession. Further, while reviewing the business operations and strategy is the last step in an unexpected succession, this is usually addressed in the second step of a planned succession to prepare the business and its assets for the succession. Less evident from Figure 4 is the fact that an unexpected succession also differs from a planned succession regarding its duration and timing. While a planned succession can take up to several years for completion, the analysis has shown that an unexpected succession is often settled within several months.

Table 10: Exemplary quotes

1. Transition of responsibilities	Involvement and commitment of successor	"We were like paralyzed and yet we had to function, because we had a business with 10 employees and I had to take on that responsibility." (Widow, firm 3) "The family is grieving; everyone is in turmoil and shock and at the same time you want to continue to run the company and sort everything out." (Daughter/successor, firm 4) “My mother called me the same evening, telling me that [my father] had passed away and that we needed to take over the responsibilities of the firm. It was quite radical” (Daughter/successor, firm 1)
	Underdeveloped business operations & structures	"The father was a genius but a brutal mess." (Successor, firm 7) "For them it was normal, they stood in line in the morning, came to ask questions. […] And I just realized, I couldn't answer them at all. And after a week and a half, I knew at that point, I knew it was impossible. We had to find another solution." (Son/successor, firm 6) "We did not have the basic financial data. Only data from the previous year, so our data was not justified on the basis of the incoming orders and the existing investments. I didn't have any time." (Successor, firm 5)
	Developed business operations & structures	"About 80 percent of our employees can actually work without us. Not for a long time, of course, because then company issues will somehow come up again, but basically it's a self-runner." (Daughter/successor, firm 1) "The company was quite ahead of its time. They had a computer program for stock maintenance and accounting already in the year 2000. It helped massively to make it easier for me.” (Successor, firm 3) "We didn't have to look for anything. It was all there. Sometimes I even thought he had known. He even left notes. […] Everything was in order.” (Widow/successor, firm 1)
2. Immediate continuation of the business	Financial situation (good)	"Yeah, it was very helpful that our financial situation was alright. Then you are also more relaxed and have more time and space." (Daughter/successor, firm 1) "The financial situation of the company was decisive. If it had been unstable, I don't know whether we would have continued or whether we would have looked for other solutions. But so it was actually quite clear." (Daughter/successor, firm 1)
	Financial situation (bad)	"We knew we had to pay wages. […] If you don't pay the wages now, people will walk away […] and we have employees with families who may also be dependent on the money.” (Successor, firm 7) “At that time, our liquidity was not excellent. And, of course, with the death and outstanding bills and payments […], I had […] major financial liquidity problems” (Successor, firm 2) “I had to reduce my salary to ensure liquidity for the business […] and we had to take out a bank loan with which I covered the bills and paid the wages until the liquidity itself was restored.” (Successor, firm 2)
	Employee support (good)	"The employees were very motivated. And for me, the support was a great help. That motivated me to continue." (Key employee/business partner/successor, firm 2) “And then there was Mrs. B. [office worker in the administration of the business], she was actually one of the main pillars that held us up. She did all the office work, including bookkeeping, etc.” (Successor, firm 6) “One of my first actions was to take Mr. F. into the managing board. […] We were able to complement each other very well, because he is a very good employee, he has already taken over the production management in area X.” (Successor, firm 6) “I just said ‘hey, now you've got to help me, otherwise it won't work’. And then things changed. And it worked.” (Son/successor, firm 6)

Table 10: Exemplary quotes (continued)

2. Immediate continuation of the business (cont.)	Employee support (bad)	"Some employees said they were promised pay raises that were not in writing. We shouldn't have given those raises, but […] we were afraid that the employees would walk away […]. These are things I would do differently today." (Son/successor, firm 7) "Well, there were really a few cases and yes, we were in such a mess and didn't know what to do, so we just agreed." (Son/successor, firm 7) "Some of them thought 'now I'm using this chance to get some more money'. But none of those work for us anymore." (Successor, firm 3)
	Managing outside stakeholders (good)	"We have received the feedback […] 'We didn't notice anything! Everything always went smoothly.' And so it went on and we continued to do business." (Key employee, firm 6) "The relationship with the suppliers had always been very good but I had to assert my authority, as there were some suppliers who wanted to hang me out to dry, because of my lack of knowledge." (Widow/successor, firm 1)
	Managing outside stakeholders (bad)	"If a company is leaderless and the market knows, you will soon have trouble with suppliers, who will start to hesitate because they don't know if they can still get the money. And the customers are already looking for alternatives, because they don't want to go out of stock." (Daughter/successor, firm 4) "I think the communication to the customers was not ideal. From the point where we were able to communicate that it goes on and how, it was good, but the time before that it wasn't ideal. I think that some customers simply left because they didn't know how it would go on." (Successor, firm 3) "Many customers no longer trusted the business. The frequency dropped quite a bit, even though it was high season. […] They were just afraid to come in and having to confront us. […] Especially the customers who grew up with my father and so they said 'I want to come, but I just can't'." (Daughter, firm 1)
3. Judicial aspects	Signature authorization	"Something that was actually life-saving, was that they gave S. and the trustee the signature authorization for the bank." (Son/successor, firm 7) "I was authorized to sign on business matters. Privately, I could not withdraw money from my husband's accounts and that was quite arduous. Until the reading of the will, that was blocked." (Widow/successor, firm 1)
	Testament / will	"They called us and asked if we could settle this without lawyers. We said, we'd be happy to, as it was in our interest as well. We gave them all the info and then they saw what was actually there. We wanted to give them all of the cash, J. had left behind. She had always said that all the cash should go to their godchildren. [...] But it was not enough for them. They claimed that J. had said that they would get half of the company. But J. had always said she didn't want that. Not that people would interfere in the company. So, we said no. […] Suddenly we got a letter from their lawyer and then the whole circus started." (Son/successor, firm 7)
	Separation of private and business assets / necessity	"Our house was part of the business assets. [In case] there would have been a bankruptcy, we would have lost our house and our home." (Widow, firm 3) "I suggested to my children that they renounce their inheritance. In case of bankruptcy, this would have been a lifelong burden for them" (Widow, firm 3). "The real estate was worth a lot, but the property and the company belonged together […] and were not separated. There were people who were interested in the company, customers or competitors, but not the real estate. And there were those who were interested in the property, but not in the company. […] It wasn't possible to separate [property from company] in the short term." (Daughter/successor, firm 4)

Table 10: Exemplary quotes (continued)

4. Goals, priorities and vision for the future	Continuation of legacy / feeling of responsibility	"It was my decision to continue the business, as it was my husband's life's work. The second reason was, I had employees. I wanted to be responsible to them and to my customers." (Widow, firm 3) "There was really only one way forward to preserve the jobs and to keep the company. There were really only these two thoughts." (Widow/successor, firm 1)
	Continuation due to prev. succession intention	"I had considered becoming an entrepreneur, sooner or later. […] Ideally in a company that already has a certain size, with an intact market behind it. In whatever form, […] acquiring shares or somehow taking over an ailing competitor. I have had such thoughts for many years." (Successor, firm 4)
	Continuation out of necessity	"It was not an emotional decision. I didn't have a choice. […] this was a financial question of existence for my family and for me whether we would take over the company." (Successor, firm 2)
	Sale of the business	"I realized that emotionally, health-wise, I just couldn't do it and I did not want anymore. So, […] we decided […] to sell." (Widow, firm 3)
5. Transaction price	Family-internal transaction	"It was a normal buying process, as if we had been outsiders. There was nothing inherited. […] The interested parties were asked to submit an envelope with the price they were willing to pay per a set date. […] That was relatively unpleasant. […] In retrospect I know that we had bid an insignificant amount less than the highest bidder. But the highest bidder's conditions were worse as he wanted a seller's loan. So, purely economically, the offer was significantly worse than our offer." (successor, firm 4)
	Transaction to employee	"[The widow of the owner-manager] had offered to sell the business to me, so that I could take over the company. […] I then set the price, but of course [the widow] was involved during this time." (successor, firm 2)
	Transaction to external successor	"The price was determined on the inventory value. So, we had a price and then we juggled a bit, property cheaper, company a bit higher valued, so that it was emotionally better for [the widow]." (successor, firm 3)
6. Review business operations and strategy	Revising business operations and addressing inefficiencies	"We found out that there were parts of the business that didn't make money. So, we talked to the customer and said: We have been producing these parts for too little money for two years now. The customer said that he already thought that this was a very good price. So, we said that we can't do it like that anymore. He understood and […] we agreed on doubling the price. And now it works." (Son/successor, firm 7) "The company was lying a bit fallow, it was a little dusty, a little under-managed. And yes, it had slowly lost speed." (Daughter/successor, firm 4) "Very important for us was our ERP [enterprise resource planning] system. Previously it had been a self-programmed system. So, we decided to switch to a new platform, a standardized one. Consequently, we also had to adjust processes. But this was a big step." (Successor, firm 6) "Today we no longer have an external warehouse, today we work together with a logistics service provider. It's one of the largest in Switzerland and has a top infrastructure in every respect. It offers us this service in a quality that we could never achieve with our own resources." (Successor, firm 4)

Table 11: Case summaries

	1. Transition of responsibilities				**2. Securing immediate continuation of the business**					
Firm	*Immediate continuation through*	*Previous involvement of successor*	*Governance structures*	*Key employees*	*Financial situation prior to event*	*Dependence of business on OM**	*Substitution arrangement*	*Employee support*	*Communication to other stakeholders*	*Issues b/c of verbal agreements*
1	Widow & daughter	yes	underdeveloped	no	good	low (medium)	partly	yes	immediate	yes, customers & suppliers
2	Business partner & Widow	yes	partly developed; minority owner and delegate	yes	bad	medium	yes	yes	immediate	no
3	Widow	no	underdeveloped	no	mediocre	high	no	no	situational / step-wise	yes, employees
4	Widow & CFO	no	partly developed	yes	good	medium	no	yes	step-wise	no
5	Brother	yes	partly developed	yes	bad	medium	yes	yes	step-wise	no
6	Son	yes	underdeveloped	yes	bad	high	no	yes	cautious / restricted	no
7	Two sons	yes	partly developed	no	bad	high	partly	yes	immediate	yes, employees

*owner-manager

Table 11: Case summaries (continued)

	3. Judicial aspects					**4. Goals, priorities and vision for the future**		**5. transaction price & financing**	**6. Reviewing business and strategy**
Firm	*Issues with signature authorization*	*Judicial arrangements (testament)*	*waiver declaration of children*	*Family conflicts*	*Legal form of business at time of event*	*Succession outcome**	*Reason for outcome*	*active sale after event*	*Operative / strategic adjustments after succession*
1	no, previously existent	no testament	yes	no	Joint stock company	FBO	Continuation of the family business; Necessity	no (inheritance)	no
2	no, previously existent	no	no children	no	Joint stock company	MBO	Lack of competence of widow; better chance of continuation; entrepreneurial / succession intention	yes	no
3	no	only prenup regulating finances, but not company	yes	no	Sole proprietorship	MBI	Necessity and continuation legacy; but lack of competence; emotional burden; children not old enough	yes	yes
4	no	no (but only one inheritor)	no children	no	Joint stock company	FBO (niece and her husband)	Lack of competence and advanced age (widow); Entrepreneurial / succession intention;	yes	yes
5	no	no	no	no	Sole proprietorship	FBO	Entrepreneurial / succession intention	no	yes
6	no, widow as part-owner	no	no	no	Joint stock company	FBO	Continuation of the family business; Entrepreneurial / succession intention	no	yes
7	no, previous arrangements	yes	no	yes	Joint stock company	FBO	Continuation of the business	no (inheritance)	yes

* FBO refers to a family-internal succession or family buyout; MBO refers to a business-internal succession through an employee or management buyout; MBI refers to a business-external succession through an outside investor or management buy-in.

In the following, each step of an unexpected succession is discussed in detail and key mechanisms are identified that help to more effectively manage each step of an unexpected succession.

4.5.1 Step 1: Transition of responsibilities

While in a planned succession a gradual transition of responsibility between incumbent and successor aims at smoothing out the uncertainty around the change of control, the business is suddenly confronted with a leadership void in an unexpected succession. While an unexpected succession can be initiated by an accident or illness that leaves the owner-manager unable to continue the business, in most cases, the unexpected succession is initiated by the death of the owner-manager[1]. The family of the deceased automatically inherits the ownership of the business and thus the associated responsibilities. In all the analyzed cases, the family of the owner-manager, either the wife (or widow) and/or the children, immediately got involved in the firm to mitigate the shock and facilitate the continuation of the operative business (see Table 11). One of the family members recalls: *"My mother called me the same evening, telling me that [my father] had passed away and that we needed to take over the responsibilities of the firm. It was quite radical"* (daughter/successor, firm 1). Oftentimes, the time pressure demands immediate action also with regards to the own commitments: *"I went to work on Monday morning and when the boss came in, I went up to the office and said: '[…] We have a problem, […] Today is my last day.' He didn't think it was so great that I had to go from one day to the next. I explained the situation to him and he was extremely understanding. I still give him credit for letting me go. Yes, and so on the same day, on Monday afternoon, I came back home"* (successor, firm 6).

While dealing with the emotional shock, the time pressure to get accustomed with the tasks, processes and structures of the business makes the situation even more challenging. In five out of seven cases, family members had been previous involved in the operative business, which helped to mitigate the uncertainty associated with the immediate take-over of responsibilities, and even having discussed certain business aspects in the family-circle in the past, improved the information basis the family had

[1] In 6 out of the 7 analyzed cases, the unexpected succession was triggered by the death of the owner-manager. In the remaining case, the owner-manager had a brain tumor, which caused an immediate inability to communicate and ultimately lead to his passing.

regarding the business, as one successor recalls: *"I was asked a couple of times 'how do you know that?' and then I said 'it was once discussed at a family lunch'. And I've had a lot of things in my subconscious that I picked up from my father when I was younger"* (daughter/successor, firm 1).

While the transitional phase in a planned succession is strongly characterized by a collaborative approach between incumbent and successor, the transition or assumption of responsibilities in the process of an unexpected succession is substantially impeded by the absence of the incumbent. In unfamiliar territories and without the help of the incumbent, the successor has to rely on his/her own ability to find the new role in the business and trust in supportive employees or advisors to facilitate the transition. In three of the seven analyzed cases, it became apparent that the governance structures of the businesses were mostly underdeveloped, with oftentimes the owner-manager having been the sole owner, manager and also single member of the board of directors: *"He was the sole shareholder of the company and [...] the sole member of the board of directors"* (successor, firm 4). One successor even called it *"a one-man show"* (daughter/successor, firm 4). Especially the smaller firms further did not have a formal second-tier leadership team. Irrespective of the industry context of the analyzed firms, it became clear that the previous owner-managers were the central most important knowhow carriers in the businesses, who often only delegated responsibilities to a limited extent: *"It was not in his nature to pass on responsibility. He always saw himself responsible for everything"* (widow/successor, firm 1). Or in another case: *"I would describe it as him never letting the threads out of his hand"* (successor, firm 2). The strong focus of responsibilities and lack of distinct governance makes the transition of responsibilities in an unexpected succession particularly challenging, as it not only means a loss of leadership, but also loss of knowhow.

As Table 11 shows, in four of the analyzed cases, the individuals involved overcame this challenge by getting support from key employees that had a certain extent of knowledge, especially about the operative processes. These were either employees responsible for the administrative processes, the person responsible for the financials of the firm or sometimes also the external financial advisors to the firm. Despite often not having a clear delegation of control or separate governance body, these key employees with knowhow regarding specific business topics were able to significantly facilitate the transition of responsibilities. In one case in particular, the owner-manager had previously promoted a key employee, who played an important role in the operative business of the firm: *"I was in charge of the organizational part at the construction site, but [the owner-manager] was still there and always shared his opinion. I was in charge of the site, with a certain amount of freedom with regards to the execution of certain tasks"* (successor, firm 2). Through his expertise, experience about the processes and knowledge about how the operative business was handled in the past, he was able to support the process regarding the transition of responsibilities and contribute valuable knowledge to the succession processes. Another successor recalls: *"And then there was Mrs. B. [office worker in the administration of the business], she was actually one of the main pillars that held us up. She did all the office work, including bookkeeping, etc."* (successor, firm 6).

The family members that took over the responsibilities were able to benefit from the insights of these key employees regarding the daily business processes. The more responsibilities these employees had before the event, and the closer they had worked together with the deceased incumbent, the better their knowledge about how business was done before and how it could continue to operate. In several of the analyzed cases, these key employees were promptly promoted to strengthen their stance and further delegate responsibilities: "O*ne of my first actions [after taking over responsibility of the firm] was to take Mr. F. into the managing board. […] We were able to complement each other very well, because he is a very good employee, he has already taken over the production management in area X*" (successor, firm 6). Thus, the transition of responsibilities was more effectively managed, when the successor was involved in the business before the event, when the incumbent had a more professional governance structure in place and when the incumbent did not run the company alone, but had delegated at least some responsibility to a key employee. Put more formally:

> **Proposition 1:** The transition of responsibilities in an unexpected succession is more effectively managed when (I) the family had a closer involvement in the business in the past, (II) the governance structures are better developed, and (III) there was a higher degree of delegation of responsibilities to key employees.

4.5.2 Step 2: Securing immediate continuation of the business

The sudden loss of the owner-manager not only presents an emotional shock to the family, but also to the business and often leaves the firm with a restricted ability to operate. Especially, if the owner-manager was heavily involved in the operative business. This leadership void needs to be filled as quickly as possible, to ensure the immediate continuation of the business. I identified three especially challenging aspects with regards to the continuation of the business: 1) the financial situation and liquidity of the firm to meet immediate and pending obligations, 2) insecurities inside the firm effecting employee support, as well as 3) managing outside stakeholders, most importantly clients and suppliers.

Assessing whether or not the liquid capital of the business suffices to meet the immediate and pending obligations, most importantly the wages of the employees, was one of the most crucial aspects in all of the analyzed firms, that needed to be addressed in this step: *"We got here, started paddling, [...] tried to work. We knew we had to pay wages. [...] If you don't pay the wages now, people will walk away [...] and we have employees with families who may also be dependent on the money"* (successor, firm 7). The situation, however, might not always allow the successor to access the financial information of the firm to get an overview of the company's situation with regards to its liquidity, as one successor describes: *"Yeah, it was pretty chaotic. Inside the office, there were piles of documents, meters high. It was brutal. [...] I had no plan. [...] Everything had been done verbally. [...] It was extremely difficult"* (successor, firm 6).

To ensure the firm's ability to act, the family or newly responsible person needs to screen the financial documents and get access to the IT-infrastructure in order to reach an understanding of the firm's situation regarding mandates, obligations and most importantly the liquidity. The better the access to company information, organization and documentation of business processes, the easier it is to reach a basis for assessing the financial situation of the firm, as one successor emphasizes: *"I was quite surprised, [...] we didn't have to look for anything. It was all there. Sometimes I even thought he had known. He even left notes. [...] Everything was in order"* (widow/successor, firm 1). Another successor recalls: *"The company was quite ahead of its time. They had a computer program for stock maintenance and accounting already in the year 2000. It helped massively to make it easier for me"* (successor, firm 3).

After reaching an understanding about the financial situation of the business, four of the analyzed firms realized that they were not in a situation of financial security, which provided challenges to ensure a continuation of the business in the short-run. One successor recalls: *"At that time, our liquidity was not excellent. And, of course, with the* *death and outstanding bills and payments […], I had […] major financial liquidity problems"* (successor, firm 2). To overcome these challenges, it is necessary to make immediate adjustments to improve the financial situation, at least in the short-run, either through adjustments inside the firm or by taking on external capital, as one successor recalls: *"I had to reduce my salary to ensure liquidity for the business […] and we had to take out a bank loan with which I covered the bills and paid the wages until the liquidity itself was restored"* (successor, firm 2).

> **Proposition 2a**: The immediate continuation of the business is more easily facilitated when (I) the business processes and financial information are well documented and accessible, (II) the firm has enough liquidity and (III) the successor is able to provide short-term liquidity when needed.

Apart from the involvement of the family, the employees play a crucial role in securing the immediate continuation of the business. However, the shock of the sudden loss of the owner-manager spreads insecurity among the employees. Apart from the family of the deceased, the employees are most prominently affected by the event as there is a possibility that the business will cease to exist and their jobs will be lost: *"Some of them started to cry. Some were afraid"* (son/successor, firm 7). Additionally, if the employees were used to getting clear instructions in order to attend to their daily business, the leadership void might leave them reliant on the successor's ability to make immediate decisions, which ultimately makes the continuation of the business more challenging. One successor recalls: "*For them it was normal, they stood in line in the morning, came to ask questions. […] And I just realized, I couldn't answer them at all. And after a week and a half, I knew at that point, I knew it was impossible. We had to find another solution"* (son/successor, firm 6).

To counter the insecurity and fear of the employees, it was imperative in all cases to focus on a clear communication and to inform the employees as soon as possible on the planned next steps, optimally updating them on how exactly the continuation of the business will be organized and who will be in charge from now on: *"They were glad when they heard that we would continue the business. You could really feel the relief"* (daughter/successor, firm 4). Moreover, it has shown to be vital that employees act in a more self-reliant way to relieve the successor to manage the continuation of the business. In six of the seven cases, it was necessary to emphasize or even actively demand more autonomous behavior of the employees. One successor recalls: *"I just said 'hey, now* *you've got to help me, otherwise it won't work'. And then things changed. And it worked"* (son/successor, firm 6). Similar to the first step in the process of an unexpected succession, key employees play a crucial role regarding the immediate continuation of the business as well, as they can unburden the successor and offer support in making the immediately necessary decisions regarding the operative business, as well as act as a mediator between the successor and the employees. A clearer delegation of responsibilities before the event, thus facilitates an immediate continuation of the business with regards to the sudden loss of the owner-manager.

> **Proposition 2b**: The immediate continuation of the business in an unexpected succession is more effectively facilitated when the successor (I) promptly and clearly communicates the planned steps for the continuation of the business, and (II) asks employees to take an active and more autonomous role.

While most employees will try to support the continuation of the business, in two of the analyzed cases some employees were critical of a successful succession and were thus either looking out for new job opportunities to jump (the presumably sinking) ship or even went as far as to try to capitalize on the uncertainty of the successor. One of the most challenging aspects in this regard is dealing with verbal agreements previously made by the owner-manager. In two of the analyzed cases (see also Table 11), employees brought forth alleged verbal agreements: *"Some employees said they were promised pay raises that were not in writing"* (son/successor, firm 7). The successor is then often in a dilemma between honoring promises that were allegedly made by the incumbent or doing what is best for the firm and risking the dissatisfaction of the employees.

The analysis has shown that it is necessary to directly address these issues with the respective individuals to find a solution that benefits the continuation of the business. In the respective cases, where verbal agreements became an issue, the claims were accepted to improve employee support: "*Well, there were really a few cases and yes, we were in such a mess and didn't know what to do, so we just agreed"* (son/successor, firm 7). However, looking back the successors regretted their decisions, as one successor recalls: *"We shouldn't have given those raises, but [...] we were afraid that the employees would walk away [...]. These are things I would do differently today"* (son/successor, firm 7). Another successor was not as compromising which resulted in the firm and the employee parting ways: *"Some of them thought 'now I'm using this* *chance to get some more money'. But none of those work for us anymore"* (successor, firm 3).

> **Proposition 2c**: The immediate continuation of the business in case of an unexpected succession is more easily facilitated when there are no verbal agreements brought forth by employees eliciting additional uncertainty for the successor.

While the immediate communication to the employees of the firm is necessary to ensure a common ground for the continuation of the business, informing other stakeholders, such as suppliers and clients, about the passing of the owner-manager needs to be done at the right moment, assuming the business partners have not already been informed by others. An unexpected succession sparks uncertainty with suppliers and customers as not only the future of the firm as a business partner is in question, but also if contractual obligations can still be honored. Suppliers, on the one hand, might question whether the firm is still able to settle invoices for ordered goods, which might lead them to hold back on deliveries, as one successor confirms: *"If a company is leaderless and the market knows, you will soon have trouble with suppliers, who will start to hesitate because they don't know if they can still get the money"* (daughter/successor, firm 4). For the firm this loss of trust can lead to impairments to the daily business. The reaction of outside stakeholders depends heavily on the image and past relation of the firm. Especially with suppliers and banks, the reaction in the analyzed cases was supportive if relations were good before the event. If relations were critical, however, the insecurity of these stakeholders seemed to be increased exponentially.

Clients, on the other hand, might also question whether the firm is still able to provide products or services in the same manner and quality as before: *"The customers are already looking for alternatives, because they don't want to go out of stock"* (daughter/successor, firm 4). The loss of trust, might therefore lead customers to hold back on orders, which in turn further negatively influences the situation of the firm. One of the successors described the situation as follows: *"Many customers no longer trusted the business. The frequency dropped quite a bit, even though it was high season. [...]"* (daughter, firm 1). There seems to be a significant difference regarding client relation with respect to business-to-business (B2B) or business-to-customer (B2C) models. In a B2B industry, clients might be dependent that contracts are being honored in time, which increases uncertainty after the unexpected succession. In B2C businesses, clients are not as dependent, which might mitigate this effect. On the other hand, if the predecessor had a close relation to costumers, they might be hesitant after the event to directly "go back to business", out of respect for the family's sorrow, which might negatively impact the business, at least for a short period of time: *"They were just afraid to come in and having to confront us. [...] Especially the customers who grew up with my father and so they said 'I want to come, but I just can't'"* (daughter, firm 1).

To overcome these challenges resulting from the uncertainty of suppliers and clients and to facilitate a smooth continuation of the business, in four of the cases communicating the unexpected succession to outside stakeholders was done cautiously. If possible, the firm should only inform them, if the family has clearly decided on the next steps to secure the immediate continuation of the business. In one of the analyzed cases, the successor was able to completely arrange the succession and secure the continuation of the business, before actively informing outside stakeholders. Uncertainty of suppliers as well as customers was thus kept at a minimum, which ultimately facilitated a smooth transition and continuation of the business, as the successor recalls: *"We have received the feedback [...] 'We didn't notice anything! Everything always went smoothly.' And so it went on and we continued to do business."* (key employee, firm 6).

> **Proposition 2d**: The immediate continuation of the business in an unexpected succession is more easily facilitated, when a final future strategy of the firm is confidently communicated to customers, suppliers and other stakeholders.

4.5.3 Step 3: Judicial aspects

Contrary to the process of a planned succession, judicial aspects of the succession need to be addressed practically at the same time as the first step in an unexpected succession[1]. As the owner-manager is unable to continue running the business, immediately topics such as signature authorization, access to bank accounts, and determining the legal successor of responsibilities need to be addressed. On top, there are other aspects that need immediate attention, if, as in six out of the seven cases, the succession is initiated by the death of the owner-manager. In these cases, testamentary aspects, prenuptial

[1] Although being an important topic in the process of a planned succession as well, judicial, tax and legal aspects of the succession are, in contrast to an unexpected succession, discussed in the last step of the process.

agreements and other inheritance related legal documents need to be considered with regards to the legal process of ownership transfer.

Issues related to a missing signature authorization, especially with regards to the access to bank accounts, may severely impede the ability of the business to continue operating in the short-term. As liquidity is imperative for the continuation of the business, not having access can pose additional challenges for the business and the family, as for example invoices can't be settled or wages can't be paid out to employees.

In all of the analyzed cases, the owner-manager had previously given someone else, either the spouse or a trusted employee, usually responsible for the financials of the firm, access to the business accounts (see Table 11). This was seen as one of the crucial decisions to facilitate the unexpected succession, as one successor recalls: *"Something that was actually life-saving, was that they gave S. and the trustee the signature authorization for the bank"* (son/successor, firm 7). Another successor recalls: *"I was authorized to sign on business matters. Privately, I could not withdraw money from my husband's accounts and that was quite arduous. Until the reading of the will, that was blocked [1]"* (widow/successor, firm 1).

> **Proposition 3a**: The judicial aspects of an unexpected succession are more effectively managed when a family member or trusted employee has signature authorization and access to the firm's bank accounts.

With the death of the owner-manager, the wife of the deceased, as well as the children, usually have a claim to the inheritance and are thus entitled to a part of the firm, if there is no other legal agreement in form of a testament. The more difficult the family relation and structure, for example with conflicts inside the family, the more probable are detrimental discussions regarding ownership and inheritance that endanger the continuation of the firm and may even lead to its sale to split up the financial assets among the inheritors. One of the cases experienced challenges in this regard, as the family members of a past marriage of the deceased wanted a share of the inheritance, despite not being interested in the continuation of the business: *"They called us and asked if we could settle this without lawyers. We said, we'd be happy to, as it was in our interest as well. We gave them all the info and then they saw what was actually there.*

[1] It is important to note that in Switzerland a formal authorization on the private accounts of the owner-manager prior to the event does not prevent the widow from being locked out of the account access until the judicial process of the estate and inheritance ruling is finished, which can take up to several months.

We wanted to give them all of the cash, J. had left behind. She had always said that all the cash should go to their godchildren. That's what my brother said, and it was no problem. But it was not enough for them. They claimed that J. had said that they would get half of the company. But J. had always said she didn't want that. Not that people would interfere in the company. So, we said no. [...] Suddenly we got a letter from their lawyer and then the whole circus started" (son/successor, firm 7). After lawyers got involved to solve the issue, it was fortunately discovered that there was a testament and prenup that clearly settled the claims. *"And in the end, they got less than we would have given them"* (son/successor, firm 7). Having more complex family structures can increase the likelihood of potential conflicts in case of an unexpected succession. A clear testament that regulates the inheritance of the business is thus incremental to prevent these conflicts that may impede the continuation of the business.

> **Proposition 3b**: The judicial aspects of an unexpected succession are more easily facilitated when there is a testament in place that clearly settles the ownership constellation.

Despite having a claim to parts of the business, there are certain situations, where it is sensible for the children to sign a waiver declaration so the widow becomes the sole owner of the business. In two cases, the unexpected inability of the owner-manager to continue managing the business was directly associated with substantial uncertainty regarding the future financial security of the wife or widow, as the business represented the only source of income. This prompted the children to sign a waiver declaration to make the widow sole owner of the business, for her to either profit from a successful continuation without a split of ownership or a sale to finance her retirement.

In two cases, the business had the legal form of a sole proprietorship. While most mid-sized and larger enterprises are set up as either a joint stock company, especially smaller firms might opt for the legal form of sole proprietorship. In contrast to a joint stock company, the entrepreneur of a sole proprietorship is liable with his private assets. If such a business cannot be continued and goes into default after an unexpected death of the owner-manager, the widow or the children inherit the responsibilities and are thus liable with their private assets. As the financial situation of the firm was critical and a successful continuation of the business seemed uncertain, the families in two cases decided that the children should sign a waiver declaration to be protected in case the business would go into bankruptcy: *"I suggested to my children that they renounce their* *inheritance. In case of bankruptcy, this would have been a lifelong burden for them"* (widow, firm 3).

> **Propositions 3c**: The judicial aspects of an unexpected succession are more easily facilitated when the (I) the legal form of the business is a joint stock company instead of a sole-proprietorship and (II) private and business assets are clearly separated.

Despite being an important aspect in the context of a planned succession (see Zellweger, 2017), inheritance or estate taxes do not play a major role in the cases of unexpected successions as in most cases the inheritance goes to the immediate family, which is generally tax-exempt in Switzerland as well as in most other countries that levy a tax on inheritances.

4.5.4 Step 4: Clarifying goals & priorities and defining vision for the future

Once the immediate challenges have been overcome and the short-term continuation is secured, the family needs to clarify the goals and vision for the future of the business by considering if they want to continue the business in the long run or evaluate other options. As with a planned succession, the family has various long-term succession options: 1) the continuation of the business by a family member (FBO, usually a continuation of the interim solution); 2) the succession by an employee (MBO); or 3) the sale to an external party. In the analyzed cases, a family-internal succession and thus a continuation of the interim solution was favored in five out of the seven cases (see Table 11). The decision was taken either to *continue the legacy* of the patriarch and the business or to *fulfill own succession intentions*.

Regarding the wish to *continue the legacy*, decisions were often taken with regards to the feeling of 'this is what he would have wanted', which strongly influenced decision making processes, most importantly with respect to the continuation of the business and deciding on a succession option. Striving for the continuation of what has been built was often associated not only with the existence of the firm, but also a feeling of responsibility with regards to preserving the jobs of the employees: *"It was my decision to continue the business, as it was my husband's life's work. The second reason was, I had employees. I wanted to be responsible to them and to my customers"* (widow, firm 3). Another successor recalls: *"There was really only one way forward to preserve the* *jobs and to keep the company. There were really only these two thoughts"* (widow/successor, firm 1).

A second reason for the continuation of the business by a family member was that there were previously existent *succession intentions*. Though not explicitly discussed or elaborated with the incumbent before the unexpected event, the latently existent intentions to one day take over the firm supported the decision to continue the business in three of the cases. The lack of explicitness was often due to the fact that in most cases, succession was not a heavily discussed topic before the unexpected event, as the owner-managers saw the business as an integral part of their life and would have probably continued the business well beyond their official retirement age: *"My father lived for the business. He wasn't actually planning on retiring"* (daughter, firm 1). In view of the fact that succession planning in SMEs is an unjustly subordinate topic and often only tackled shortly before the entrepreneur's planned retirement (see Halter & Schröder, 2017; Zellweger, 2017), this observation is not surprising. To make matters worse, in cases of unexpected successions the incumbent often had several years before his official retirement age, which further reduced the importance of previous succession planning. Nevertheless, some family members had developed the wish to one day either take over the business or even become self-employed outside of the father's business. *"I had considered becoming an entrepreneur, sooner or later. […] Ideally in a company that already has a certain size, with an intact market behind it. In whatever form, […] acquiring shares or somehow taking over an ailing competitor. I have had such thoughts for many years. And about a year before the [unexpected succession] happened, I had a more intensive conversation with B."* (successor, firm 4).

> **Proposition 4a:** In an unexpected succession, a family-internal business continuation is more likely when there is (I) a strong feeling of responsibility to continue the legacy of the owner-manager or when (II) a family-member has own succession intentions.

A family-internal succession, however, is not always the favored solution in case of the unexpected death of the owner-manager or his inability to continue the business. The emotional shock associated with the sudden loss puts an immense strain on the inheritors, in most cases the mourning widow, making them want to sell the business as fast as possible: *"I realized that emotionally, health-wise, I just couldn't do it and I did not want anymore. So, […] we decided […] to sell"* (widow, firm 3). A sudden loss of the owner-manager, however, elicits uncertainty and shock, abruptly putting the firm at a disadvantageous position with regards to the ability to continue the business, the financial situation of the firm, and thus ultimately the attractiveness of the business as a purchase object in case of a sale. Compared to a planned succession, where there is time to prepare the transition, revise the firms' strategy and streamline assets (Zellweger, 2017), the uncertainty and time pressure often don't allow for adjustments before a prompt sale. The family is in a situation where they either accept a substantial sales discount that accounts for the situation of the firm or realize that they have to continue the business themselves, which puts them into the position where a family-internal succession even becomes a *necessity*, especially if the firm represents the sole source of income, or the family and its assets are not separated from the business assets. This was especially true in two cases, where the firm was organized as a sole proprietorship, making the family privately liable for any obligations of the firm. Additionally, the family homes were part of the firm's assets. In case of a default of the firm, the family would have lost a substantial part of their financial existence: *"Our house was part of the business assets, so, I had to continue. Or else there would have been a bankruptcy and we would have lost our house and our home [...]. So, there was nothing else for me but to continue"* (widow, firm 3).

A second option for the succession, if the family members decide not to continue the business themselves, comes in the form of a take-over through a business partner or key employee in the form of a management buyout (MBO). Their previous involvement in the firm and knowledge about the business as well as the processes, make this option especially promising in terms of a successful continuation of the business. The potential successor, however, does not only have to be willing but also able of managing a company in such a difficult time of turmoil. Similar to the family-internal succession becoming a necessity, this holds true, if the employee or business partner held a minority stake in the firm before the unexpected event occurred: *"It was not an emotional decision. I didn't have a choice. [...] this was a financial question of existence for my family and for me whether we would take over the company"* (successor, firm 2).

> **Proposition 4b:** In an unexpected succession, a management buyout is more likely, when (I) the family lacks the competence to continue the business and (II) there is a willing and able key employee, so that a family-internal succession does not become a necessity.

How the process of an unexpected succession continues after having resolved step four depends on the chosen succession option and more specifically, whether or not the solution demands a change of ownership in the form of a sale of the business. While in a planned succession, a transition of ownership with a subsequent determination of the transaction price, as well as ensuring the financing of the transition is an integral part of the process, this step is irrelevant, if the unexpected succession was initiated by the death of the owner-manager, which lead to the successor inheriting the company automatically. If the ownership structure remains unchanged, which is the case if the business stays in the hands of the inheritor(s), the process continues with step six. While in four of the analyzed cases a transition of ownership was not necessary, in the remaining three cases, the business was sold (see Table 11) and the process thus continued with step five.

4.5.5 Step 5: Defining the transaction price

The sudden loss of the owner-manager and the resulting leadership void represent a significant shock to the business and causes uncertainty regarding the firm's ability to successfully continue their business. Especially in the context of SMEs where the dependence on the owner-manager is rather high, due to him or her often being the decision maker, as well as an important figure in the relationships with clients, suppliers and other stakeholders, the sudden loss of his or her presence puts the firm at a disadvantageous position. The degree of dependency of the business on the owner-manager directly affects the financial situation of the firm, and thus ultimately the attractiveness of the business as a purchase object in case of a sale. Compared to a planned succession, where there is time to prepare the transition, revise the firms' strategy and streamline assets (Zellweger, 2017), the time pressure often does not allow for adjustments before a prompt sale: *"The real estate was worth a lot, but the property and the company belonged together […] and were not separated. There were people who were interested in the company, customers or competitors, but not the real estate. And there were those who were interested in the property, but not in the company. And then of course my aunt's wish was that the company should be continued. […] And it wasn't possible to separate [property from company] in the short term"* (daughter/successor, firm 4). The family is thus in a situation where they either accept a lower transaction price that accounts for the situation of the firm or realize that they are unable to sell the business.

In three of the analyzed cases the inheriting family members decided to sell the company. In one case the business was sold to another family member, in another case the business partner, who had previously held a minority share acquired the remaining shares and in a third case the business was sold to an external buyer. From the analysis of the cases it became apparent that the challenges related to the finding of a transaction price were heavily influenced by the financial situation of the firm and the dependence of the business on the owner-manager. In the case of the family internal transaction, the business had been performing well in the past and the partly developed governance structures had reduced the dependence on the owner-manager who had passed away. The existing interest in the company allowed a normal sales process, as the successor recalls: *"It was a normal buying process, as if we had been outsiders. There was nothing inherited.* […] *The interested parties were asked to submit an envelope with the price they were willing to pay per a set date. […] That was relatively unpleasant. […] In retrospect I know that we had bid an insignificant amount less than the highest bidder. But the highest bidder's conditions were worse as he wanted a seller's loan. So, purely economically, the offer was significantly worse than our offer"* (successor, firm 4).

In the second case, a key employee had previously been given the opportunity to purchase a minority share in the company and became the co-owner prior to the unexpected event. Despite the fact that he had taken over certain responsibilities, the firm had been rather dependent on the presence of the owner-manager. After the death of the owner-manager, the widow inherited the majority stake in the firm, but wasn't able to continue the business as she lacked the competences to take over the responsibilities. Additionally, the financial situation of the firm was suboptimal and interest from outside investors to take over the firm was non-existent. The widow thus decided to offer her shares to the key employee: *"Mrs. K. had behaved fairly and had offered to sell the business to me, so that I could take over the company. […] I then set the price, but of course [the widow] was involved during this time to make the decision"* (successor, firm 2).

In the third case, the unexpected death of the owner-manager had sent the business into a spiral. The high dependence on the owner-manager had left the business with restricted ability to continue after the event and the widow, lacking the necessary competences, was unable to take over responsibility. The longer the business was left without leadership, the worse the situation would get. With the help of one of the main suppliers of the business, a potential external successor was found. However, due to the high uncertainty, the worrisome financial situation of the firm and without any real competition in the buying process, the widow had little leeway to determine a price, as the successor recalls: *"The price was determined on the inventory value. So, we had a price and then we juggled a bit, property cheaper, company a bit higher valued, so that it was emotionally better for [the widow]"* (successor, firm 3).

> **Proposition 5**: Defining the transaction price of the business in an unexpected succession is more easily facilitated when (I) the financial situation of the business is healthy and (II) the dependence of the business on the owner-manager was low prior to the event.

4.5.6 Step 6: Review business operations and strategy

After having dealt with the immediate challenges elicited by the unexpected succession and having decided on the constellation in which the business should be continued in the future, the final step in the process focuses on reviewing the business operations and strategy. In five of the seven cases, the successors—family-internal as well as external—realized that significant adjustments were necessary, since in many cases there had been several issues and general inefficiencies that needed to be addressed in order to return to successfully operating the business: *"Our industry is highly competitive. Everybody [bargains] with each other and my father had just let himself be pushed down and then our price had fallen further and further […] and that was actually the reason why the company was in bad shape at the time when we took over. But we didn't know at that time"* (son/successor, firm 7). Another successor recalls: *"The company was lying a bit fallow, it was a little dusty, a little under-managed. And yes, it had slowly lost speed"* (daughter/successor, firm 4).

To address these issues, successors fundamentally revised major aspects of their companies, that had been neglected in the past (see Table 11). In one case, it was necessary to review the contracts with suppliers and clients, as the firm was losing money: *"We found out that there were parts of the business that didn't make money. So, we talked to the customer and said: We have been producing these parts for too little money for two years now. The customer said that he already thought that this was a very good price. So, we said that we can't do it like that anymore. He understood and […] we agreed on doubling the price. And now it works"* (son/successor, firm 7). In another case, the successor realized that processes needed to be improved with regards to a better professionalization: *"Very important for us was our ERP [enterprise resource planning] system. Previously it had been a self-programmed system. So, we decided to switch to a new platform, a standardized one. Consequently, we also had to adjust processes. But this was a big step"* (successor, firm 6). Similarly, another successor reviewed the business processes and decided to outsource one part of the business: *"Today we no longer have an external warehouse, today we work together with a logistics service provider. It's one of the largest in Switzerland and has a top infrastructure in every respect. It offers us this service in a quality that we could never achieve with our own resources"* (successor, firm 4). The successors realized that in order to facilitate the future development of the firm, investments had to be made: *"The building, where the office is now, was built in three stages. Between 2000 and 2007 a lot was invested and that was also important, because before that it was an outdated company"* (key employee, firm 5).

> **Proposition 6**: To secure the long-term continuation of the business, the successor (I) actively adjusts business processes to eliminate inefficiencies and (II) invests in the firm's rejuvenation.

4.6 Discussion

In this exploratory study on owner-managed SMEs, I aimed to uncover the process of unexpected successions. Based on the interviews and inductive analysis, I uncovered a six-step process (see Figure 3) and identified several challenges with potential strategies to facilitate a successful process. Building on process models of planned successions (Handler, 1990; Le Breton-Miller et al., 2004; Zellweger, 2017), I was able to show that there are not only various differences with regards to the process steps, but also their sequence and timing (see Figure 4). The analysis has further shown, that the process of an unexpected succession often only takes several months in comparison to the far-longer process of a planned succession, as there are several issues that need to be addressed immediately after the unexpected event with the initial three process steps happening simultaneously right at the beginning of the process. The analysis of the cases as well as the examination of the various process steps has further revealed important insights into unexpected successions.

First, *employee support* has shown to play a crucial role in facilitating a successful unexpected succession. With their business knowledge and insight into the processes, key employees are able to support the family and/or successor in various steps of the succession process. Not only are they able to assist in smoothing out the transition of responsibilities (step 1), but they take on important roles with respect to the mediation between successors and business staff (step 2). Especially in challenging situations, such as disputes regarding verbal agreements, they play a crucial role in facilitating the process (step 2). In some cases, key employees may even be potential successors, if the family is not willing or able to continue the business themselves (step 2 & 4).

Second, the analysis of the cases has shown that *better developed business structures* can significantly improve an unexpected succession process. Especially governance structures that reduce the dependence of the business on the owner-manager, such as a better developed board of directors, a second-tier leadership team or a higher degree of delegation to key employees prior to the event, drastically reduce uncertainty in case of an unexpected succession (step 1 & 2). The cases have also shown that better documented processes and improved access to financials and financial information facilitate the transition of responsibilities (step 1). Additionally, having the business in the legal form of a joint stock company further supports the process, as a clear separation between business and private assets facilitates managing the legal aspects (step 3) as well as defining goals and priorities for the future of the business (step 4).

Third, this exploratory study has shown that the process of an unexpected succession is heavily facilitated by the *involvement and commitment of family-successors*. The analysis made clear that a family-internal succession was the most favorable solution for the continuation of the business. The feeling of responsibility to continue the legacy of the owner-manager, as well as the own intentions to one day take over the business had a significant positive impact on the engagement of the family members to find solutions to continue operating the business. A prior involvement of the family successor in the business or at least the industry, as well as an active and prompt communication of their commitment was additionally supportive to take over responsibilities (step 1) and secure the immediate continuation of the business (step 2). Additionally, their commitment to review and revise business processes (step 6) was further supportive of a successful unexpected succession and future development of the business.

Lastly, the analysis has shown that a healthier *financial situation of the business* significantly facilitates a successful unexpected succession. The sudden loss of the owner-manager elicits tremendous uncertainty not only to employees but also suppliers, clients and other stakeholders, which often negatively influences the ability of the business to continue its operations. Especially in the short-run, it is thus necessary to have enough liquidity to pay wages and settle invoices to prevent additional stress on the successor and the business.

This exploratory study also presented some surprising evidence. In two of the analyzed cases, it was interesting to find that an unexpected succession might have also been helpful in accelerating and positively influencing a family-internal succession, that would have otherwise, according to the interviewed individuals, not have been possible due to personal differences between the views of the family successor and the incumbent, as well as difficulties arising due to the owner-manager not being able to let go of his firm. An unexpected succession can thus in some cases be advantageous towards the facilitation of a family-internal succession that would have been hampered in case of a normal course of the planned succession process, through the incumbent being too involved or attached to the firm.

4.7 Contributions

With this study, I contribute to the literature on unexpected succession which has studied the effects of sudden deaths of executives on firm performance and firm value (Bennedsen et al., 2006, 2012; Johnson et al., 1985; Nguyen & Nielsen, 2014), by extending the scope to owner-managed firms and providing a complementary qualitative perspective which adds to the understanding of underlying processes. The identified challenges and associated mechanisms emerging from the unexpected succession thus offer novel insight that might be helpful in explaining the negative effects of sudden deaths on firm value and performance. For instance, the analysis has shown that an unanticipated loss of the owner-manager elicits tremendous uncertainty, which, due to a loss of trust in the firm's future ability to operate, might negatively affect the behavior of suppliers and customers. While suppliers might fear that the firm will no longer be able to settle invoices and thus delay deliveries, clients might expect a decline in quality of products or services and hold back on orders. Both reactions impede the firm's operations and consequently firm performance.

In addition to extending the geographical scope by focusing on SMEs in Switzerland, I contribute to the study by Kreter (2017) who focused on German firms, by providing additional insight into success factors of unexpected successions. While also identifying the support of employees and the involvement of the successor as crucial factors for a successful unexpected succession (see also Kreter, 2017), the analysis has revealed the importance of developed business and governance structures to reduce the dependence on the owner-manager, as well as a sound financial situation of the firm to compensate short-term operational losses.

I further contribute to the literature on organizational resilience (Chrisman et al., 2011; Folke, 2006; Ortiz-de-Mandojana & Bansal, 2016) that has focused on a firm's reaction to unpredictable occurrences—for instance with respect to shocks in the supply chain (Pettit et al., 2010), natural disasters (Butts et al., 2012) or even terrorist attacks (Gittell et al., 2006). By investigating how firms deal with a severe shock initiated by the loss of the owner-manager, I extend this literature by focusing on a severely disruptive event within the organization in the context of owner-managed firms. In this context, the study provides a series of grounded propositions reflecting the actions undertaken to ensure continuity of the businesses.

Lastly, this study contributes to the literature on (family firm) succession (Handler, 1990; Le Breton-Miller et al., 2004; Zellweger, 2017) that has mainly focused on planned succession and the development of associated models, but has largely neglected the phenomenon of unexpected succession. By presenting a newly developed process model and revealing several differences to planned successions that illustrate the limited applicability of existing models, I provide new insight to contribute to a more holistic understanding of the topic of succession.

4.8 Limitations and Future Research

As in any empirical research, this study comes with some limitations. First and most important, the research design, which is based on a small number of comparative cases, is of exploratory nature. As such, the findings and propositions that emerged from this analysis do not claim to be generalizable and should be scrutinized in a quantitative-empirical set up. The limited sample size, however, allowed a detailed in-depth analysis of each case to achieve a comprehensive understanding of the mechanisms and processes associated with the unexpected succession.

Second, for the empirical analysis of this qualitative study, only successful cases were examined, exposing this study to a survivorship bias. The deliberate focus, however, fitted the research goal to identify and analyze the complete process of unexpected successions, which might not have been possible if the process was interrupted due to a discontinuation of the business and failure of the succession. Nevertheless, future research should include failed unexpected successions to scrutinize the findings of this study by comparing the reasons for their failure with the identified success factors in the process of an unexpected succession. I thus encourage scholars to carry out additional research on failed unexpected successions to evaluate potential inconsistencies.

Third, this multiple-case design focused on unexpected successions in a specific setting and region, namely SMEs in Switzerland, to limit potential external influencing factors founded in varying frame conditions. The identified patterns might thus not be transferable to unexpected successions in either large firms or other countries. Future studies should thus extend this focus to other settings in order to broaden our understanding of the phenomenon in varying environments.

4.9 Conclusion

Despite their practical relevance, unexpected successions have not yet received considerable attention in research, which is why our understanding of the phenomenon and in particular the process of unexpected succession is limited. With this study, I present a comprehensive six-step process model of unexpected successions, revealing various challenges and mechanisms for each step. With the findings of this study, I advance a more nuanced understanding of unexpected succession and hope to encourage more research on the topic.

5 Concluding Chapter

5.1 Contribution to Theory & Practice

All three papers of this cumulative dissertation advance the research in the field of control structures and the transfer of control in family firms in different ways. In the following, the key contributions of each paper to theory and practice are highlighted.

Paper one mainly contributes to the literature on family business groups (Almeida & Wolfenzon, 2006; Carney et al., 2011; Masulis et al., 2011) by providing a focused overview of the main characteristics of the phenomenon with regards to the variegated definitions of family business groups, the multitude of reasons for their emergence and formation, their structural differences as well as performance aspects. The paper thus contributes to a more holistic understanding of the phenomenon of family business groups, which due to their ubiquitous presence and strong economic influence in most countries have high theoretical and practical importance across country-specific settings (Morck, 2005; Zellweger, Nason, et al., 2012). The paper further contributes to the literature of family business group by providing insight into possible directions for future research. From a practical perspective, paper one contributes to a better understanding of why family business groups emerge in different contexts as well as pointing at several traits, that might help with regards to assessing complex business structures.

Paper two of this dissertation contributes to prior research on estate taxes in the entrepreneurship and private firm literatures (Carney et al., 2014; Ellul et al., 2010; Yakovlev & Davies, 2014) by introducing countries' extent of entrepreneurial activity and business ownership as antecedents to estate taxes and study their impact on estate taxes in conjunction with other socio-economic factors, such as a countries' culture and wealth inequality, while taking into account causal complexity. Finding three distinct configurations of factors that are linked to high and low estate taxes, respectively, the study illustrates the complex and interdependent nature of the institutional determinants of estate taxes. Moreover, paper two sheds further light on the controversial relationship between entrepreneurship and estate taxes (Battilana et al., 2009; Cagetti & De Nardi, 2009) by finding support for the view that high estate taxes lead to a loss of productive capital and lower incentives to start firms and thus to low entrepreneurial activity. Relatedly, the study concludes that low estate taxes are linked to strong entrepreneurial activity, which provides further support for the opponents of estate taxes. Additionally, paper two further contributes to the economic literature on estate taxes and inheritance law (e.g., Beckert, 2008; Piketty & Saez, 2013) by introducing cultural institutions, in particular individualism versus collectivism, as neglected determinants of estate taxes. The paper also extends theory around the institutional principles upon which societies draw to justify high versus low estate taxes by developing three additional principles that complement previous findings by Beckert (2008). Lastly, the paper also contributes toward disentangling the relationship between estate taxes and wealth inequality (Benhabib et al., 2011; Cagetti & De Nardi, 2009), suggesting that both low and high wealth inequality can be linked to high estate taxes. From a practical perspective, paper two contributes to the knowledge about the interdependencies between estate taxes and socio-economic factors of a country, thus helping policy makers to assess potential ramifications of adjustments to estate taxes, for instance with regards to the level of entrepreneurship.

Paper three of the dissertation contributes to three distinct streams of literature. First, the paper extends the literature on unexpected succession by extending the scope to owner-managed firms and providing a complementary qualitative perspective which adds to the understanding of underlying processes. The findings of the study thus offer novel insight that might be helpful in explaining the negative effects of sudden deaths on firm value and performance. Secondly, paper three contributes to the literature on organizational resilience (Chrisman et al., 2011; Folke, 2006; Ortiz-de-Mandojana & Bansal, 2016) by focusing on a severely disruptive event from within the organization in the context of owner-managed firms. In this context, the study provides a series of grounded propositions reflecting the actions undertaken to ensure continuity of the businesses. Thirdly, this study contributes to the literature on (family firm) succession (Handler, 1990; Le Breton-Miller et al., 2004; Zellweger, 2017) by presenting a newly developed process model and revealing several differences to planned successions that illustrate the limited applicability of existing models, providing new insight to contribute to a more holistic understanding of the topic of succession. Practitioners mainly benefit from these findings in that they reveal the necessary steps that need to be undertaken in order to manage an unexpected succession. The study thus offers insight into the variegated challenges and potential strategies that might help to either prepare counter measures to this eventuality or deal with the event in case it has already occurred.

5.2 Limitations and Future Research

The studies constituting this dissertation are subject to limitations but also reveal certain research areas and aspects that hold promise and could thus be addressed by future academic studies. The key limitations as well as the potential future directions presented in the studies are highlighted in this section.

Paper one provides an overview of the phenomenon of family business groups by synthesizing findings of a selection of articles on the topic. Due to following strict rules with regards to the identification and selection of research articles to achieve a rigorous and reproducible scientific approach, it is possible that potentially valuable research contributions were not considered as they did not fit the search patterns. Future research might thus extend the approach with regards to an even broader and more inclusive search strategy. Paper one further identified three directions for future research. Firstly, existing literature on the emergence of family business groups has mainly focused on developing countries and are based in the institutional voids theory (Granovetter, 1994; Khanna & Palepu, 2000b; Khanna & Rivkin, 2001). However, this partly neglects the fact that family business groups exist and thrive in developed countries. Further research is therefore necessary to better understand their existence and role in economies where institutions are better developed. Secondly, from an agency theory perspective, family business groups are mainly seen as an instrument for collusive behavior and expropriation of minority shareholders through related party transactions (Chang, 2003; Khanna & Yafeh, 2007). However, the current discussion does not sufficiently address the consequences and effects of agency conflicts that arise with different structural arrangements of the family business groups. Thirdly, the current state of research has largely excluded the family business literature from the discussion. Especially the aspect of transgenerational entrepreneurship (Sharma, Sieger, Nason, González, & Ramachandran, 2013), where family business groups could be seen as a result of a family's inclination to act as an entrepreneur has yet to be discussed in more detail.

Paper two analyses the link between country-specific socio-economic factors and the level of estate tax, measured as the maximum estate tax without exemptions. With the goal of establishing institutional logics that explain the formation of estate taxes, the focus on estate taxes without exemptions is warranted. However, I encourage future studies to include tax exemptions and explore potential differences to the findings presented in paper two. Further, estate taxes are the focus of dynamic political bargaining and may alter with swings in the dominant political preferences in a country. As paper two only focuses on a static analysis, future studies could analyze other points in time to see if similar configurations emerge. Lastly, there may be additional socio-economic factors related to estate taxes other than those chosen in paper two.

Paper three is mainly limited by the applied methodological approach, as the small sample size as well as exploratory nature of the study limit the generalizability of the findings. Future research could thus apply and test the developed process-model on other case studies to potentially strengthen its explanatory value. Additionally, for the empirical analysis of the qualitative study only successful cases were examined, exposing this study to a survivorship bias. Future research should thus include cases where unexpected successions were not successful and lead to the discontinuation of the firm in order to scrutinize the findings of this study.

5.3 Conclusion

This cumulative dissertation addresses three specific topics with regards to control structures and the transfer of control in family firms. While the first paper addresses a particular control structure in the form of family business groups, paper two and three take a closer look at the taxation as well as a specific form of the transfer of control. With the different focuses of the individual papers, the dissertation as a whole makes valuable contributions to a broad stream of literature and hopes to encourage further research.

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