Governance Adaptations to Global Challenges: Ownership and Family Governance Changes in German Family Businesses, 1960s to 2005

1. Corporate Governance of Family Firms and the “Mittelstand”, Germany 1960s-2005

The notion “Mittelstand” refers to a specific type of corporate governance in Germany. It is not equal to the English expression “small and medium sized enterprises” (SME) even though there is a significant overlap. The wording alone points to its status “in-between” or “in the middle”, a political distinction from both the anonymous, powerful big business and the poor, exploited working-class.

Applying a qualitative definition, many family firms in Germany can be considered “Mittelstand” since the family influence results in an identity of ownership and management, a strong emotional investment by owners and staff and an emphasis on family and business continuity. These traditional features of the German “Mittelstand” survived major political and economic crises during the 19th and 20th century. Contrary to Alfred D. Chandler’s believe that the separation of ownership and control lies in the logic of enduring capitalism, family businesses still account for a significant part of the corporate landscape.

Even though reality does not seem to confirm the theoretically predicted decline of family firms, the traditional corporate governance model nevertheless changed significantly in the last third of the 20th century. Roughly, from the 1960s onwards, an evolutionary

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transformation process has been taking place which was triggered and reinforce by economic changes, such as globalisation, increasing international competition and soaring capital needs. The new economic and social framework in Germany highlighted the ambivalent nature of family firms’ Corporate Governance which has positive as well as negative impacts. Hartmut Berghoff describes the evolution from the classic to a new modern “Mittelstand”, a process which he interprets as a “watershed in the history of the German Mittelstand”. Trends which he considers responsible for the undermining and transformation of the classic Mittelstand model are the higher capital intensity of business organization, the integration of external, non-family decision makers and the new approach to succession. Therefore, many family firms faced similar problems caused by the relationship of the family to the firm, the desire to retain the family influence yet the need for capital and professional management.

But so far business history has seldom addressed the consequences of these challenges for the internal organization of family firms. We know little about the “how” and “why” corporate governance changes in the micro processes that constitute the everyday work. This paper deals with the internal organisation of family firms during the decisive period in Germany from the 1960s onwards. Therefore, it builds on Neubauer and Lank’s corporate governance framework for the family firm which deals with the relationship of the family, the owner circle, the business’ management and the board of directors. The paper aims at investigating how family firms change their traditional Corporate Governance structure and how they alter the relationship of the family and the firm. Therefore it focuses on one important aspect of this relationship: family ownership.

2. Psychological Ownership as a Theoretical Framework

Ownership is an important aspect of family firm’s corporate governance but has until recently been rather neglected in family business research. This is surprising because

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5 Berghoff, "End": 285.
6 Ibid.: 286-293.
9 Brundin, Ethel, Melin, Leif, and Florin Samuelsson, Emilia, Family Ownership Logic. Core Characteristics
family ownership is a defining element of the family firm and the German “Mittelstand” alike. It has also been prominently included as a distinct circle in the so called “Three-Circle-Model” by Tagiuri and Davis.9

Nevertheless, studies of ownership in family firms are rare and tend to confine themselves to the legal rights of shareholders and the structure of shareholder institutions. This paper discusses instead the processual world of ownership in family firms and its consequences. As important as the legal dimension of ownership is, it is by no means the only one. Ownership must at the same time be considered a social construct and an individually perceived feeling of possessiveness. That is what Pierce et. al describe as “psychological ownership” defined as “that state [of the mind] in which individuals feel as though the target of ownership (material or immaterial in nature) or a piece of it is «theirs»”10. According to Pierce and his co-authors this state of the mind has at least three sources, which are potentially interrelated: (1) controlling the target, (2) coming to intimately know the target and (3) investing the self into the target (compare figure 1).

The connection of ownership and control (1) is closest to our every-day understanding of ownership. The exercise of control over a target strengthens the feeling of ownership toward it; and the greater the autonomy regarding this object, the more it is experienced as part of the self (1a). Therefore intimate knowledge about the object is prerequisite (2). The more an individual feels associated and familiar with an object, the stronger the feeling of ownership he/she develops toward it. Pierce et. al. argue that therefore the intensity of associations, e.g. the number of interactions of the individual with an object (2a), the time period the relationship lasted for (2b) and the accessibility and costs of information (2c) are decisive factors. A frequent and close association leads to the perception of intimately knowing the target. As a result, the objects we know and consider as “ours” are a representation of our self (3). As Pierce et. al. argue: “The investment of an individual’s energy, time, effort, and attention into objects causes the self to become one with the object”11. Therefore, the target must be perceived as attractive and valuable within a certain social group (3a).

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11 Ibid.: 302.
The theory of psychological ownership has been developed with the aim to analyze the employee-organization-relationship.\textsuperscript{12} Independently of legal ownership rights, the employees’ feelings of ownership explained changes in their attitudes and behaviours. Recently, some family business scholars have picked up the basic ideas of that theory and stressed the need for further studies about the psychology of family ownership.\textsuperscript{13}

This paper argues that psychological ownership can be considered one reason why many business families tried to keep the family influence up and restricted the ownership to family members despite the increasing capital needs in that time frame from the 1960s to roughly 2000. It puts the argument forward that research on family ownership must be widened to include psychological ownership and culturally embedded elements which do not necessarily change when the formal Corporate Governance structure is modified. Therefore, the paper starts a comparison of three family-owned and controlled firms with a traditional “Mittelstand”-structure, which have evolved and changed the ownership processes and practices since the 1960s.

\textsuperscript{12} Ibid.

3. Ownership Processes and Corporate Governance: A Comparison of Three Family Firms

3.1. A Methodological Note

Research on family businesses has grown dramatically over the last decades. Whereas the field is dominated by quantitative research methods drawing on large samples\textsuperscript{14}, qualitative, inductive research and case studies, which are theoretically grounded, are rather rare. Since in family businesses, many processes and decisions can only be understood on the micro-level considering (often) tacit understandings and the relationships within the family, this methodological approach seems to be equally important.\textsuperscript{15}

This paper is based on a detailed comparison of three case studies. The three family-owned and -controlled companies Bagel (printing and publishing), Deckel (engineering) and Rodenstock (optical industry) are ideal candidates for “theoretical sampling”\textsuperscript{16} because they changed their corporate governance structure during the selected time period and redefined the relationship of family (ownership) and business. In consequence, they faced similar problems concerning the role of the family in a modern business corporation.

All the three of them tried to keep the family influence up; yet felt the need to react to global competition and raising capital needs.

A further argument for the case study selection is the high level of access to the companies via archival material and personal interviews. The family and business archives were especially rich and multifaceted. They hold typical business files as well as many personal documents, letters and notes. The data was analyzed in a two-stage process. In the first stage, the documents were reviewed without presumptions, classified and finally ordered chronologically and by key topics. In the second stage, selected key players of the business were asked to participate in a narrative interview with the author. The narrative


\textsuperscript{15}Hall, Annika, Nordqvist, Mattias, and Melin, Leif, Qualitative Research in Family Business Studies. The Usefulness of the Interpretive Approach, Proceedings of the FBN 16th Annual World Conference, September (Brussels: 2005).

interviews started with a biographical section which was followed by open questions concerning the corporate governance structure. The interviews were tape recorded and transcribed for post interview analysis. Each interview was reviewed first by the author, and was then discussed with an interdisciplinary team of four PhD-candidates working with interview analysis.¹⁷

This methodological approach via few in-depth case studies allows addressing the everyday practices of family owners and their psychological ownership and therefore offers a deeper insight into the nature and workings of the family business. It has the aim to discuss different dimensions of the phenomenon family ownership and explain their impact on the internal organization of the family firms.

3.2. The Bagel and the Rodenstock case

The ownership structure of the first case study Bagel can be classified as a cousin-consortium.¹⁸ Since the death of Fritz Bagel in 1937 (4th generation), the ownership was divided evenly between the two son, Gerd and Carl-August Bagel, who again bequeathed theirs shares to their wives and children. The selling of the shares was generally restricted to family members and financially rather unattractive.¹⁹

In 1960, the business took the legal form of a GmbH & Co. Kommanditgesellschaft which allows for limited liability of all shareholders. One member of the family - Peter Bagel since 1964 - has been chosen to represent the family in business and to be responsible for strategic leadership. The chosen legal form, which has been seen as more suitable for the changing economic framework, established a differentiation of personal liable and managing shareholders one the one hand (“Komplementäre”) and non-managing shareholders with little rights to information and control (“Kommanditisten”) on the other hand. This differentiation is typical for the multi-generation family business (with more than one shareholder). In family business research the different types of shareholders have often been labelled “active” and “passive” shareholders which is rather misleading.

¹⁷ I would like to thank my colleagues at the graduate school “Generationengeschichte. Generationelle Dynamik und historischer Wandel im 19. und 20. Jahrhundert” Christina May, Alexandra Retkowski, Eva-Maria Silies, and Nadine Wagener-Böck for their commitment and comments.
¹⁹ Interview with Peter Bagel, 24.03.2006 and Dr. Ida Bagel, 15.03.2006. Compare with Redlefsen, Matthias, Der Ausstieg von Gesellschaftern aus großen Familienunternehmen. Eine praxisorientierte Untersuchung der Corporate Governance-Faktoren (Wiesbaden: 2004)
because the “passive” shareholders are not passive concerning their rights and responsibilities as owners but passive according to business management.²⁰

An important difference between the two types of shareholders was the access to information. Legally, only Peter Bagel had access to all information concerning the business activities whereas the non-managing shareholders only got the annual financial statement and had a veto right concerning extraordinary transactions.²¹ Peter Bagel, nevertheless, understood his role as connecting link between the business and the family shareholders. Therefore, he clung to several traditional family governance activities with the aim to associate the family members with the business and inform them about it. One example was the regular visits of the firm by the family members who learned about the day-to-day work, the technological equipment, the strategic orientation, and the risks and potentials of the business activities.

During these inspections, it was up to the external managers, not to Peter Bagel, to explain the business development to the family. By that, the family members firstly established a frequent contact to the professional management - a modern element of the family firm’s Corporate Governance. Secondly, Peter Bagel communicated his status as primus inter pares to his co-shareholders. He wanted his family members to perceive him as their representative. Whereas the habit to regularly visit the family business was a practice with a long family tradition, within the new Corporate Governance structure it offered a possibility to strengthen the relationship between the external management and the family owners.

Furthermore, the shareholders’ visits were much more than just one-off activities. It was an integral part of the family culture to refer to these events and keep the memory alive. Traditionally, photographs have been taken and sent to the family shareholders. In letters, which accompanied these pictures, both managing and non-managing shareholders referred again and again to the visits. In 1989, Peter Bagel’s co-shareholder and cousin, Ursula, sent him a letter to thank for the pictures and commented on the latest visit:

²¹ §§ 166 Handelsgesetzbuch (German commercial law).
“It was a very nice afternoon, which we did not only enjoy but which left a permanent impression. It feels saver to not only provide the money but also see the machines working.”

Peter also sent regular newsletters to his co-shareholders in which the visits played an important role. In one example from 1986, the managing shareholder provided his family with a magazine, which has been printed at the Bagel business. He wrote:

“when we have been in Mönchengladbach, Mr. Stier [author’s note: a non-family manager] has been talking about a new magazine that we were going to print for the house Bauer. This magazine is now on the market and I would like to send you the first copy because we are extremely proud of the printing result […]. Obviously, we are very happy about our success despite the hard concurrence in the industry.”

The copy of the magazine was introduced as a high quality product. Peter underlined its value with a reference to the situation in printing industry. An accompanying newspaper article, which dealt with the international printing market, added to this line of argument. The shareholders’ visits and theirs follow-up were an important source of psychological ownership and a mechanism to coming to intimately know the business (Picture 1: (2)). The frequent contact with the business (2a) and the accessibility of information (2c) strengthened the feeling of belonging of the non-managing shareholders. Furthermore, the traditional family governance practices helped to define the relationship of the family and the business, e.g. of the family member and the external managers. At the same time, the feeling of intimately knowing the Bagel business can be interpreted as motivation to participate in the business activities and to control the work of the managing-owner. In the case Bagel it is characteristic that the shareholders exercised control even regarding small decisions and practices. As each family branch owned fifty percent and decisions could only be taken in consensus, all shareholders had a strong sense of control, which further strengthened the psychological ownership (Picture 1: (1)) and the feeling of responsibility. The non-managing owners were active in identifying potential problems; e.g. concerning the family investments. In 1987, one shareholder asked for detailed information about the changing tax law in the USA and Canada. Peter’s

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22 Bagel Archiv 246 - 1, 07.02.1989. This and all following quotations have been translated by the author.
23 Bagel Archiv 244 - 1, 24.11.1986.
response was diplomatic: he provided all information he had and suggested to discuss the topic with an expert.\textsuperscript{24}

At Bagel, psychological ownership was strongly linked to responsibility towards the business. This had ambivalent effects and can give shareholders a feeling of being locked up. Dr. Ida Bagel, the designated successor of Peter Bagel, commented on her role: “That is always the problem with inheriting something. You do not want to be guided by it in your life choices.”\textsuperscript{25}

The principle of consensus forced all shareholders to agree and was a high risk procedure because every singly shareholder could disagree and would need to be disciplined within the family. This had a better chance for success because the ownership was more than a financial investment and could offer a supplementary psychological gain.

This self-understanding as owner had a concrete impact on practices concerning the shareholder’s dividend. In the case Bagel Irmgard Bagel, the wife of Gerd and mother of Peter Bagel, had the legal right to take her money out of the business. Her husband, however, demanded her in his testament to leave the money in the business as long as she did not need it for a living. She obeyed and her son continuously thanked her in letters with the words: “Thank you for leaving the money, according to father’s wish, in the Bagel business.”\textsuperscript{26} From a purely economic point of view, this might not have been the perfect investment in her situation but the wish of her husband and the long association with the business provided her with an extra gain. As Pierce et. al. have elaborated she perceived the target, the family business, as socially valuable and attractive (compare picture 1: (3a)). Moreover, Peter’s letter proved his appreciation for her behaviour and that of the family which he represented. Irmgard Bagel’s psychological ownership was presented to a closed social group, the business family, and therefore offered her a psychological profit.

Similarly, in the case Rodenstock the managing owner Rolf and his non-managing sister Erika even signed a private contract in 1953 declaring not to take any gains out of the business for the following 20 years. For Erika this agreement was extremely important and proved her association with the family business, in which she had no other role than that of an investor. Repeatedly, she remembered her personal sacrifice in speeches in front of

\textsuperscript{24}E.g. Bagel Archiv 244 - 2, 23.02.1987 and 04.03.1987.

\textsuperscript{25}Interview with Dr. Ida Bagel, 15.03.2005.

\textsuperscript{26}Bagel Archiv 237 - 5, 10.08.1992 Original: „Ich danke Dir auch diesmal wieder, dass Du entsprechend Vaters Wunsch Dein Guthaben […] weiterhin in den Bagel’schen Unternehmen zur Stärkung der Betriebsmittel belassen hast.\textquotedblright\textsuperscript{\textquotedblright}
the employees and articles for the internal journal of Rodenstock; explaining it with the intertwined nature of the family and the business development and her personal commitment to this multi-generational tradition. The financial loss was a psychological gain and part of her identity (compare picture 1: (3)). Furthermore, she presented her self-investment to an audience which can be expected to appreciate it. Erika’s commitment and psychological ownership therefore was a symbol for the influence and responsibility of the Rodenstock family.

3.3. The Deckel case

Similarly to the Bagel and Rodenstock cases, the company Deckel was a Offene Handelsgesellschaft (personal liability) after the Second World War managed by the brothers Hans and Fritz Deckel. But the governance of a classic Mittelstand family firm came under immense pressure from the 1970s onwards when the whole industry faced global concurrence. Together with internal conflicts within the family, these circumstances laid the ground for a fundamental restructuring process resulting in an incorporated company which was listed at the stock exchange (in Frankfurt and Munich).

Since 1940, the ownership structure has been divided in two family branches (Hans and Fritz Deckel) but in distinction to Bagel and Rodenstock, the shareholder contract established the family governance-form of sub-participation (“Unterbeteiligung”). Each branch had one (male) representative in the business and the other shareholders participated in his shares instead of being direct shareholders of the business. The distinction between “active” managing shareholder and “passive” non-managing shareholder was therefore even sharper in this legal arrangement than in the cases discussed above.

From the end-1960s onwards, a lively discussion started about the relationship between the family and the business corporation. Within the business, the declared aim was to free the business from all family elements and to adapt the corporate governance to that of a listed corporation.

One frequently discussed point in that process of corporate governance change was the information management. In 1968, shortly after the death of Fritz Bagel, a first conflict

27 See e.g. internal journal “Gute Sicht” No. 52 (Dec. 1980) and No. 88 (Oct. 1998).
28 Compare BWA N 06 - 213, 20.05.1970.
between the managing shareholder Hans Deckel and a non-managing shareholder from the other branch, Rosaly, occurred. Hans wrote a letter to his niece Rosaly and expressed his anger about her constant demand for information. He stated that there have been too many enquiries to the business and that he was not willing to fulfil these any more since her legal status did not allow her to ask for more than the financial statement and the profit and loss account. As every branch had a representative, he demanded his niece to address to hers, her brother Michael, not to the company.  

During the ongoing debate, the same brother Michael Deckel signed a contract with his mother and his sister Rosaly in 1969 declaring that he would inform his sub-shareholders about the business development and about every topic of general interest to them. The other family branch in person of Hans Deckel did not agree with this special arrangement. In a lengthy, detailed statement a lawyer declared that the agreement was illegal and invalid. He argued that the agreement even contradicted the shareholder contract signed in 1940 which principally denied female family members any influence on the business as long as there is one male representative of the family. The distinction between “active” and “passive” shareholders was reinforced by a gender argument in that discussion from 1971.

In 1973, the company finally changed its legal form to a joint stock company (Aktiengesellschaft) and was listed in 1981. In the beginning it used the tool of preference shares (“Vorzugsaktien” without voting right) but later offered ordinary shares (“Stammaktien”) as well. At the contrary to the original intention, the CEO nevertheless remained a member of the family Deckel. Despite the fundamental corporate governance change, the relationship between family and business continued to be largely undefined and conflict-riddled. Especially the access to information remained a problem for the non-managing owners. In 1982, the family shareholders even addressed themselves to the new Corporate Governance element, the Board of Directors, who denied giving them the requested information. The chairman argued that it was illegal to inform the family shareholders better than any non-family shareholder. He admitted that it was impossible to avoid informal communication between the family shareholders and the members of the board but from his point of view formal meetings were illegitimate.

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29 BWA N6 - 213, 16.08.1968.
30 BWA N6 - 213, 04.01.1971 [author’s note: incorrectly dated 04.01.1970].
31 Ibid.
32 BWA N6 - 211, 08.10.1982.
All in all, the access to information was constantly denied to the non-managing family shareholders in the new corporate governance structure even though the actors made quite an effort in order to achieve a better status, which points to a strong feeling of association with the business. This abrupt disconnection resulted in an ongoing conflict, which lasted for at least two decades.

Taking the theory of psychological ownership into account (compare figure 1: (2c)), the case study highlights the importance of information management for the relationship between managing and non-managing family shareholders. That point can only be fully understood if family ownership is defined as more than a legal agreement the individual feeling of belonging need to be taken into account.

Comparably, the role of the family members as investors was redefined during the process of Corporate Governance change. In a letter dated 9th April 1969, the managing shareholder Hans Deckel denied his co-shareholders any access to their dividends before the financial statement has been formally confirmed. He argued that the traditional procedure, which allowed access during the ongoing accounting period, had to stop immediately. Furthermore, he stated that the planned change of the legal form into an incorporated company would have made such practices illegitimate anyway. The answering letter from his niece Rosaly was simple and unambiguous. She demanded that the corporation paid her the totality of her income for the last three years immediately and was not willing to accept any delay. She finished her letter with the words:

“I sincerely hope, dear Uncle Hans, that I have expressed myself more or less clearly and in case I didn’t, I apologize but I am a beginner in the field of business and the language of a “business women” needs more practice. My second offspring will be born at the end of Mai and if I think about my cousins as well I have to say that we, the Deckel-girls, are very productive in that area.”

In that letter Rosaly articulated her demands very clearly and was not willing to abstain from her rights as investor. Interestingly, she argued with her status as a woman and as a member of the family in order to achieve her goals. Her self-description as “Deckel-girl” appealed simultaneously to her patriarchal uncle (the “girl”) and highlighted her belonging to the family Deckel. She used the gender stereotypes of the bourgeois family and the

33 BWA N 06 - 213, 09.04.1969.
separation of male and female sphere by stating that she contributed to the success of the family in her sphere (“in that area”), i.e. reproduction. Consequently, her claim was from her point of view legally and morally justified.

4. Discussion: Family Governance, Psychological Ownership and Stewardship

The comparison of the three presented case studies points to some important aspects of family ownership and its changes and challenges. The empirical material proves that ownership is not sufficiently described as a legal agreement but has to be understood as a culturally embedded construct. Especially in family firms, in which the owner-business relationship is a part of the family culture and tradition, this aspect is of high relevance for continuity, longevity and success. In order to take that into account, the psychology of ownership is of major importance.

Whereas the brief descriptions of the cases Bagel and Rodenstock show how psychological ownership can be strengthened through long-living norms and conventions despite new legal arrangements; the Deckel case rather highlights risks and perils for psychological ownership during family governance changes.

The shareholders of both Bagel and Rodenstock feel attached to “their” business and, according to Pierce et. al. invest themselves in it. In both families dividends remain traditionally within the business. In the case Bagel, the entrepreneur Gerd Bagel even included this practice as a wish in his last will. The family business, therefore, is perceived as an extended part of the family by his wife Irmgard which fosters her loyalty towards the business. The repeated letters of Gerd’s son Peter to his mother in which he thanked her for her waiver are a symbolic appreciation for her behaviour within the family. In the Rodenstock case, the shareholder’s abdication has been presented at several occasions in front of the employees - an audience which is expected to appreciate the act. Both cases underline the importance of presenting the psychological ownership to a certain social group in order to perceive it as socially valuable. The appreciation strengthens the self-investment and therefore the psychological ownership.

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36 Compare with Hall, Legal.
37 See also Ikävalko, Markku, Pihkala, Timo, and Jussila, Iiro, Perspective.
The frequent shareholder visits at the Bagel firm comparably reinforce the feeling of possessiveness because at these occasions the shareholders have access to information and establish a good relationship with the external managers. Peter’s self-presentation as *primus inter pares* and the principal of consensus in family governance help to diminish the difference between managing and non-managing shareholders, which is a common problem in multi-generation family firms with more than one shareholder. On the negative side, a strong psychological ownership can also result in feelings of imprisonment and of being tied to an inherited object.

In the Deckel case, the practices of abdication develop differently. When Hans Deckel tried to alter the traditional, informal practices, the other shareholders reacted indignantly. The argument has been reversed: The shareholders demanded for an immediate and complete payout of dividends precisely because they are members of the multi-generation family business. In her letters, especially Rosaly highlighted the culturally embedded argument by strategically using the gender stereotypes of the bourgeois family and by underlining her contribution to the family’s success.

All in all, the fundamental changes of the family governance system (who accompanied the change of the legal form into a listed corporation) had deep impacts on the every-day practices and the psychological ownership. The more the non-managing shareholders have been restricted in their rights, the more they tried to formalize their status as investors. Because of the contradiction between a rather dynastic approach to ownership and the “professional”, family-free approach to management, which seemed appropriate in order to face the new economic challenges, conflicts aroused. In that process, only the rights of the non-managing shareholders have been restricted and the divide between managing and non-managing owners has grown wider. The theory of psychological ownership helps to explain the feeling of frustration and loss the family shareholders experienced when denied access to the business which they (and their family) owned psychologically. Consequently, the family members tried to formalise their status as investors and argued beyond the traditional family reasoning. The abrupt information asymmetry jeopardized the psychological ownership of the shareholders even though the legal ownership remained largely untouched (or even improved in the process of incorporation because all shareholders get the same voting rights instead of the sub-participation which had been valid before). This again points to the importance of understanding the phenomenon ownership with all its dimensions, i.e. as a legal agreement and as a culturally embedded state of the mind.
In all three cases, the family culture and tradition had an impact on the psychological ownership. The collective reference to a multi-generational tradition of family and business’ co-evolution shapes the feeling of belonging in the every-day practices of the owners. Pierce et. al. argue theoretically that the duration of membership is important for the strength of psychological ownership (compare figure 1: (2b)). Referring to a multi-generational family-business-relationship can therefore foster psychological ownership because it extends the time period of belonging beyond the individual life span.

In that argument the theory of psychological ownership has a connection point to the stewardship-approach by Davis, Schoorman and Donaldson. These authors argue against the premises of agency theory which understands human beings as purely self-interested and utility maximizing. Instead they argue that in certain situations men are not motivated by individual goals but “the model of man is based on a steward whose behaviors have higher utility than individualistic, self-serving behaviors.” Their intrinsic motivation results among others from professional ethos and identification with the organization. Analogously, family shareholders can be intrinsically motivated to behave as responsible owners because they identify with the family and the organization (or the co-evolution of both); and therefore have a dynastic approach and understand their role as one of a steward for following generations.

5. Conclusion

This paper contributes to the research about family firm’s Governance and the relationship of the family and the firm. It follows Berghoff in arguing that the German Mittelstand has changed profoundly from the 1960s to date and that these changes have been triggered and reinforced by the development of global markets, soaring capital needs and social changes.

One central aspect in that process is the family-business-relationship based on ownership. This paper argues that ownership is much more than a legal arrangement. Instead it uses the theory of psychological ownership in order to highlight its status as a cultural construct negotiated between the family shareholders. In three empirical case studies the (positive and negative) impacts of family governance practices on psychological ownership have been analyzed. The paper suggests that it is necessary for family business practitioners to

understand the sources and processes of psychological ownership and to identify the outcomes (especially the negative ones) on the level of the individual as well as on the organizational level. Moreover, psychological ownership can explain why even family members without legal rights to the business might have feelings of ownership towards it. The results help to better understand the differentiation and relationship between “active” managing shareholders on the one hand and “passive” non-managing shareholders on the other hand. The sources of psychological ownership (compare figure 1) have all been proven important for this relationship. Especially the access to information was a sensible point in the three businesses and a source of conflict between the shareholders. The case studies show how often (legally) unimportant decisions lead to severe conflicts because they affect the basis of psychological ownership. This leads to the suggestion for family business practitioners to take these sensible points into account when modifying the Family Governance and ownership processes.

The empirical results also underline the need for further adjusting the theory of psychological ownership to the specific family business context. Initially, the theory of psychological ownership dealt with the relationship of an individual employee and the organization he/she belongs to. It therefore confines itself to the individual level and ignores the uniqueness of the family business context.

Taking this context into account, the family as a social entity with a shared tradition and history lays the ground for a collectively based psychological ownership. This leads to two suggestions for future research. Firstly, it is not just individual family members feeling associated with the business, but they simultaneously belong to a multi-generational tradition as business owners. This social group offers a place for narrations and collectively negotiated role responsibilities, which research should investigate more closely. Secondly, Pierce et. al. have argued that the owning object must be perceived as socially valuable. From the empirical case studies in that paper, one can conclude that the relationship of this object and the self - the psychological ownership - must furthermore be presented to a well-chosen audience. The social appreciation for certain behaviours and values is as important as the individual self-investment and depended on an occasion to present it.

Certainly, there is a need for more fine-grained analysis of the psychological and situational factors affecting family ownership, which is likely to be especially affected by psychological ownership. Even though psychological ownership exists in a variety of contexts, the intimate relationship of a family with a business and the multi-generational
tradition provide ownership with more than financial profits. The application of the theory of psychological ownership to the family business context may add to theorising of the concept itself as well. Since the family and the business are two systems that can foster strong feelings of belonging, the investigation of the co-evolutionary system of the family business contributes to both, theory development and family business research.