The Function of the *Aufsichtsgremium* in German Family Businesses: An Empirical Examination from the Agency Perspective

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1. Introduction

For a long time researchers have been of the opinion that agency costs only arise if ownership and management of a business are separated (Jensen & Meckling 1976, Fama and Jensen 1983, Fama and Jensen 1985). Since there are informational asymmetries between the principal (owner) and the agent (manager) and since the agent may behave opportunistically the principal needs to implement control mechanisms or incentive-based contracts in order to ensure that both parties pursue the same interests.

Traditionally, family businesses have never been in the focus of the principal-agent discussion. Since in most family businesses ownership and management are not separated, many researchers were convinced that altruism would prevent family members from behaving opportunistically. As a result, they thought that the agents' self-interests were in line with those of the principals (Wu 2001). These are the reasons why Daily & Dollinger (1992) consider the organizational form of family businesses to be very efficient since in non-family businesses "the costs of contracting with the managers, the costs of monitoring the managers, and the costs of inefficiency by managers, among others, all serve to lower organizational performance" (Kang 2000, Van den Berghe and Carchon 2003).

More recent studies, however, have found out that agency problems also arise in family businesses. This type of business suffers from specific intra-family problems (Gomez-Mejia et al. 2001**,** Schulze et al. 2001, Lubatkin et al. 2005, Schulze et al. 2003, Gersick et al. 1997, Harvey and Evans 1994). The problem areas comprise a large number of different aspects: What are the prerequisites for a family member to work in the company? Should there be an age limit for the CEO as well as the chairmen of the supervisory board and how to organize the relationship between majority and minority shareholders are just some of the issues that can lead to conflicts in family businesses (Morck and Yeung 2003, Villalonga and Amit, 2006, Dyer 1994, Bergstrom 1989, Lansberg 1999, Sharma 2004, Karra et al. 2006). The situation is further exacerbated by the problem that, from generation to generation, family members may trust each other less (Drozdow and Carroll 1997). Chrisman et al. (2004) have come to the conclusion that "...family firms are anything but immune to the problems of principal-agent dysfunction" and Levinson (1971) argues that "...these problems make family businesses possibly the most difficult to operate."

Although more recent studies demonstrate that agency problems also arise in family businesses researchers have criticized the principal-agent theory as being too insufficient to be used as the only explanatory approach in the corporate governance discussion (Donaldson and Davis 1991). To do family businesses more justice, researchers have used the stewardship theory as an alternative approach. Unlike the principal-agent theory this theoretical approach assumes that managers of family businesses are motivated by intrinsic instead of extrinsic factors and that they act accordingly. In this case the owner and the manager pursue the same goals. "Managers that behave like stewards are primarily interested in the success of the organization as a whole" (Martynov 2009). This is why the question of which explanatory approach should be used especially for family businesses is closely linked to the question of whether in family businesses there is an agency environment predominant where managers, regardless of whether or not they are a family member, behave like agents acting out of self-interest or, if in family businesses there is a stewardship environment predominant where the managers act like stewards motivated by intrinsic factors. Researchers have come to different conclusions in terms of this issue.

Moog et al. (2009) show that there are informational asymmetries in family businesses when it comes to company successions. As a result family businesses are not without agency problems. According to the empirical work conducted by Chrisman et al. (2007) family managers tend to behave like agents. The researchers argue that this is due to the fact that the managers are provided with incentive compensation. Koeberle-Schmid (2008) demonstrates that supervisory boards of family businesses monitor the management regardless of its composition. Family managers are thus regarded as agents, too.

Jaskiewicz and Klein (2007), however, establish that family businesses with a high level of goal alignment between owners and managers are much more likely to implement stewardship-based governance mechanisms. Vallejo (2009) proves that in family businesses non-family employees tend to behave like stewards. Le Breton-Miller et al. (2011) argue that if a stewardship- or an agency environment is predominant depends on how the firm and the managers are embedded within the family.

The studies show that until now only certain aspects of businesses have been examined in greater detail for stewardship or agency aspects. What has been neglected so far is a more detailed examination of the business environment according to different levels of family influence. What is the relationship between the management and the owners of family and non-family businesses? Does an environment prevail that is based on trust and little control? Or is an environment that is characterized by mistrust and strong control predominant? What effects does the business environment have on concrete tasks within the business?

Our research study analyzes the function of the supervisory board[1] in German family businesses. Its aim is to examine how the *Aufsichtsgremium* completes its tasks as this might allow conclusions to be drawn about the governance mechanisms that were implemented. If a stewardship environment is prevailing in the business one would expect an environment of trust where the controlling function of the *Aufsichtsgremium* is less predominant. An agency environment, however, might lead to the assumption that the *Aufsichtsgremium* monitors the management.[2] Furthermore the business environment could also affect other functions of the *Aufsichtsgremium*. So it may be possible that the mediation between managers and owner has a different dimension in a stewardship environment than in an agency environment. So it is possible to determine the business environment on the basis of the function of the *Aufsichtsgremium*. Family influence on the respective businesses is determined by using the F-PEC scale developed by Astrachan et al. (2006). This scale makes it possible to classify the family influence on a business and to compare them with each other.[3]

This paper is structured as follows: Chapter two provides an introduction to the theoretical background and presents the hypothesis. Chapter three presents the methodology and discusses the empirical results. Finally, chapter four draws a brief conclusion and provides an outlook.

[1] From now on we will use the German word for supervisory board (*Aufsichtsgremium*) to make it clear that the German board differs from the board that usually prevails in the Anglo-Saxon world.

[2] Only businesses with a maximum of 499 employees were selected for the present study in order to exclude businesses with mandatory supervisory boards.

[3] See Chua et al. 1999 for a more detailed comparison of standard definitions of the family business

2. Theoretical Implications

Exchange relations between a principal and an agent are the basis of the principal-agent theory and the stewardship theory. According to the principal-agent theory the agent acts out of self-interest and behaves opportunistically. According to the stewardship theory, however, the steward behaves in a collectively oriented way. To make the employee act in line with the employer the relations between them need to be established differently depending on the theory that is used.

2.1 Principal-agent theory

The principal-agent theory belongs to the field of New Institutional Economics and stems back from The Nature of the Firm (Coase 1937). [4] On the basis of a model this theory tries to explain how individuals act in a hierarchy (cf. Ross 1973). An employer (principal) asks an employee (agent) to act in line with his goals and pays him money for that. Both parties are limited in their decision-making by an asymmetric distribution of information. In addition to that, both parties try to maximize their benefit and they also behave opportunistically if need be (cf. Berle and Means 1932). Since the employer as well as the employee might pursue different goals agency problems cannot be ruled out (cf. Alchian and Woodward 1988). Depending on the stage of agency relations the principal and the agent are in, they can be roughly categorized into *Adverse selection* and *Moral Hazard*. *Adverse selection* deals with the situation before the contract is concluded. Due to asymmetric distribution of information between both contracting parties, the situation can lead to suboptimal results (cf. Akerlof 1970). *Moral Hazard* refers to the situation after the conclusion of the contract. A distinction is made between *hidden information* and *hidden action*. *Hidden information* means that the agent has information that is not available (at least not for free) to the principal. In this situation the employer faces the risk that the employee uses his information advantage to act out of self-interest (cf. Arrow 1985). In order to limit this problem the principal has the possibility of conducting a *screening*. Using specific tests or other research, he tries to find out beforehand whether the agent conceals his real intentions. The agent, however, can use *signaling* to show the principal that he tells the truth. *Hidden action* refers to an uneven distribution of information between the contracting parties after the conclusion of the contract (cf. Holmström 1979). The principal's information deficit entices the agent to perform worse

[4] See Kieser and Ebers (2006) for a detailed discussion of the principal-agent theory

and to behave opportunistically (*shirking*). In order to do something against the agency problems just mentioned, the principal can use three instruments to discipline the agent. First, he can directly control the agent's behavior. So he can establish formal rules within the organisation and monitor whether these rules are observed. If this is not the case the principal might want to impose sanctions. Second, improving the information system can help to overcome agency problems. The more information the principal can use to monitor the agent, the more the agent will take the principal's interests into consideration (Eisenhardt 1989, p. 60). Third, the principal has the possibility of sharing the company's success with the agent (cf. Laux 1990, Harris and Raviv 1979, Williamson 1985). If the contractual agreements between the principal and the agent focus on performance, there is a strong incentive for the agent to take the principal's interests into consideration (Eisenhardt 1989, p.60). However, using such alternative ways to build up agency relations leads to agency costs. This term refers to the difference between the costs of an ideal solution with 100% of information and the costs of the given situation with less than 100% of information (Jensen and Meckling 1976, p.308). In businesses, principal-agent problems usually arise if there is a separation of ownership and management. Yet family businesses whose family members manage the business are not free of agency conflicts, either. The reasons why these conflicts arise include especially *CEO Entrenchment*, *nepotism*, *conflicts between majority and minority stakeholders* as well as *altruism* (Poza 2006, La Porta et al. 1999, Shleifer and Vishny 1997, Bennedsen et al. 2007). *Entrenchment* refers to the period of time that managers work for the business (cf. Chrisman et al. 2005, Morck et al. 1988, Harvey 1994, Shleifer and Vishny 1997, Morck and Yeung 2003). Family managers usually work between 15 and 25 years for a business. This is very often longer than it makes sense. Managers of anonymous publicly held corporations, however, only work three or four years in the business (Miller and Le Breton-Miller 2006, cf. also Gedajlovic et al. 2004, Villalonga and Amit 2006, Gomez-Mejia et al. 2001, Keese et al. 2010). At the same time, there is also the problem of replacing ineffective family members working in the business (Handler and Kram 1988). *Altruism*, selfless behavior among family members, is considered to be unfavorable if blind trust in family members exists, if family members monitor each other less than necessary, or if family members occupy a position in the business without being qualified for it (Lubatkin et al. 2007, Schulze et al. 2003, Chrisman et al. 2005, Stark 1995). [5] Acting family members are

[5] There are different opinions in the literature on whether altruism in family businesses is a positive or a negative feature (cf. Karra et al. 2006). Zahra 2003, Chrisman et al. 2004, Eaton et al. 2002, Chua and Schnabel 1986,

faced with the *Samaritan's dilemma* (Buchanan 1975) because their own actions encourage the other family members to act to the detriment of the business (Koeberle-Schmid 2008, Schulze et al. 2003, Bruce and Waldmann 1990).

2.2 Stewardship-Theorie

The essentials of the stewardship theory were already discussed at an early stage in theology (Thompson 1960). They stem back from the explanations made by Donaldson (1990), Donaldson and Davis (1991) as well as Davis et al. (1997). Realizing that the principal-agent theory is not sufficient to explain human behavior in general and the relationship between manager and principal in particular led to the introduction of this theory (Donaldson and Davis 1991). Unlike the principal-agent theory the stewardship theory assumes that the contracting partner who was hired does not act out of self-interest and behave opportunistically. Instead, the theory assumes that he displays collectivist, trustworthy and loyal traits (Davis et al. 1997, Lee and O´Neill 2003). The steward's needs for self-fulfilment, membership and responsibility make reaching the company's goals within the framework of the employment relationship appear more important than pursuing personal goals (Fischer 2003, p. 217, Tosi et al. 2003). In addition to that, values and professional ethics are of great significance (Velte 2009). „Stewardship theorists assume a strong relationship between the success of the organization and the principal´s satisfaction" (Davis et al. 1997). Unlike the extrinsically motivated agent the steward is intrinsically motivated. Since the employer can trust the employee it is not necessary for him to use individual forms of contracts to make the employee act in line with him. „In theory, owner-managed firms in general, and family firms in particular, should have less need to control agency problems than publicly held firms because of the shared interests of principal and agents." (Ang et al. 2000, Jensen & Meckling 1976). Monitoring can even be counter-productive since it decreases the steward's motivation (Argryis 1964, Bass 1985, Deci et al. 1999, Manz and Sims 1993, Lee and O´Neill 2003). It could be demonstrated that CEOs who are stewards act in the best interests of the company if the corporate governance mechanisms are established in such a way that the CEOs can act as autonomously as possible and do not have to make decisions (Donaldson & Davis 1991). The principal-agent theory primarily focuses on how monitoring measures can be used to

Chami 1997, Carney 2005 are of the opinion that altruism is a positive feature.

discipline the agent. Stewardship theorists, however, deal with business structures that give the managers as much freedom as possible.

2.3 Hypothesis development

Stewardship relations usually prevail in a business if the players are very *altruistic*, if the business pursues *economic* as well as *non-economic* goals, and if the corporate culture is based on a *high level of trust* (Corbetta and Salvato 2004).

In family businesses, *altruism* is very common among family members. (Steier 2003, p. 601, Lubatkin et al. 2007, p. 1023ff, Chua et al. 2009, p. 361). "…Family members are expected to be altruistic toward each other as a result of kinship obligations that are part of the axiomatically binding normative moral order in most cultures" (Chrisman et al. 2004, Stewart 2003). When it comes to recruiting new employees, children of shareholders are often favored over applicants who do not belong to the family (Berghe and Carchon 2003, p. 175, Karra et al. 2006, p. 874, Ewing 1965). In addition to that, it becomes clear that family members monitor each other less (Schulze et al. 2001). It is also found that there is "reciprocal altruism" among those family members working in the business. This "reciprocal altruism" ensures that the family's welfare maximizes one's own benefits (Schulze et al. 2001, Becker 1974, 1981, Lunati 1997).

The fact that family businesses pursue *economic* as well as *non-economic* goals has lately been proven and discussed in detail by many researchers (Karra et al. 2006, Chrisman et al 2003, 2004, 2005, Lee and Rogoff 1996, Steier 2003, Sharma et al. 1997, Achleitner et al. 2010). [6] In this context, however, we can assume that family businesses rather tend to pursue *non-economic* goals if the managers of the business are members of the family. Members of the family are usually quite familiar with their own business as well as with their family. They would like their own children to join the company. Very often they feel responsible for their employees who, in some cases, started working for the company at a time when their parents were still managing the business. In addition to that, they are interested in the long-term orientation of the business (Casson 1999, Harvey 1994, Miller et al. 2008, Gomez-Mejia et al. 2001, Habbershon and Williams 1999, Fear 1997, James 2006, Villalonga and Amit 2008, McCann et al. 2001) and the long-term establishment of a reputation (Whetten and Mackey 2005, Godfrey 2005, Lymann, Keese et al. 2010, Barney, 1991, Eddleston et al. 2008). These

[6] Sharma et al. 1997 disagreement about the range of this

incentive contracts consider economic success to be the primary goal. Due to this, family-external managers link the company's success mainly to its economic performance.

According to Corbetta and Salvatto (2004), a corporate culture based on a *high level of trust* is the third feature of a *stewardship environment*. At first view one might claim that especially family members trust each other very much. Because who do you trust more than your own relatives who you often have known for all of your life? This argumentation is also confirmed in terms of family businesses (Davis 2010, The Economist 2004, Drozdow and Carroll 1997, Karra et al. 2006, Haugh and McKee 2003, Harvey and Evans 1994, Becerra and Gupta 2003, Chua et al. 2006, Canadian Business 2007, Shepherd and Zacharakis 2001, Tyler and Degoey 1995). "The family is one obvious form of moral community generating trust relations. Hence it is no accident (…) that most businesses, in current as well as earlier times, are family businesses" (Giddens 1995). These trust relations make it possible to reduce monitoring measures in a business (Cruz et al. 2010, Bradach and Eccles 1989, Gulati 1995).

Mayer et al. (1995) as well as Mayer and Davis (1999) consider *ability*, *benevolence* and *integrity* to be the determinants of trust. *Ability* refers to the formal and informal influence of business members within the organisation. Especially managers who are family members usually have a strong influence in the business. On the one hand, this is due to the fact that they often have the same surname as the founder and/or the company itself, which makes them appear very special. On the other hand, family managers tend to own high fractions of the equity, which adds to the impression that they have great influence in the business (Schulze et al. 2003, p. 182). Furthermore, it becomes clear that the higher their equity capital shares are, the more managers tend to behave like stewards (Pierce et al. 2001, Wasserman 2006). In contrast, managers who own only few company shares tend to behave rather opportunistically (Fox and Hamilton 1994). Researchers have found out that managers who founded a business are more powerful and influential than their colleagues who joined the company later (Fisher and Govindarajan 1992, Finkelstein 1992, Zaleznik and Kets de Vries 1975, Hickson et al. 1971). Due to this strong influence, managers who belong to the family are more willing to admit mistakes they have done in terms of managing the business. Unlike family-external managers who fear possible penalties regarding their career, family-internal managers have fewer consequences to fear (Cruz et al. 2010).

Benevolence refers to the agent's benevolence to act in line with the owner's interests. Regarding this determinant, it becomes clear that there is a high level of loyalty especially among family members. This loyalty creates strong bonds between the members (Gomez-

Mejia et al. 2003, Cruz et al. 2010). Family members are more willing to share information with each other (Barney et al. 2002) and they also put the company's performance before their own benefits (Becker 1974). At the same time, there are less informational asymmetries among family members (Litz 1995, Van den Berghe and Carchon 2003) and "free-riding" is less common within the family (Chrisman et al. 2004).

Integrity, the third determinant of trust, refers to the agent's values and moral concepts. Are these values and moral concepts in line with the principal or does the agent have different moral concepts? If the managers of the business belong to the owning family, their values are very much in line with those of the family shareholders (Drozdow and Caroll 1997, Andersen et al. 2002). This also suggests a stewardship environment (Deckop et al. 1999).

According to the principal-agent theory the agent tends to behave selfishly and opportunistically. Businesses with an *agency environment* would therefore need to have established institutional monitoring measures that make it possible to monitor the agent and his behavior. We can therefore assume that the *Aufsichtsgremium* in such an environment primarily serves control purposes.

A stewardship environment, on the other side, that is characterized by values such as trust, loyalty and collectivity tends to prevail in businesses where the family influence is high.

Businesses with a *stewardship environment* would try to give their managers as much freedom as possible (Davis et al. 1997) and reduce monitoring measures to a minimum as this might decrease the steward's motivation (Argryis 1964, Takahashi 2000). At the same time the mediation function of the *Aufsichtsgremium* gains particular significance since in a *stewardship environment* there is a trend towards consensus-building. Accordingly, for a business with a *stewardship environment* one might expect an environment of trust where the controlling function of the *Aufsichtsgremium* is less predominant. Velte (2009) supports this hypothesis by proving that the *Aufsichtsgremium* of a business with a *stewardship environment* primarily acts in an advisory and inclusive way, which means, that the mediation function is predominant. In a business with an *agency environment*, however, the supervisory board acts rather in a control-oriented and exclusive way.

But how can a family exert influence on their business? According to the F-PEC scale developed by Astrachan et al., a family's influence on their business can vary.

In their capacity as owners the family also exerts influence and power on the business by being the majority shareholder. As already mentioned, family members trust each other very much and behave extremely altruistically toward each other. This is most likely the case if the family is the sole shareholder of the business. In this case, we can assume that agency costs are very low (Ang et al. 2000). If there is a dominant one and several minority shareholders, agency costs are higher (Morck et al. 1988). However, if the level of family influence is low, e.g. because the family is not the sole shareholder of the business, we can assume that altruism and trust among the shareholders and the family-internal managers is not as strong. Wassermann (2006) supports this hypothesis. On the other hand, agency structures tend to prevail in businesses where the fraction of the equity of the family is low (Jensen et al. 1976). It also becomes obvious that in family businesses the stewards' motivation decreases when family influence declines (Pierce et al. 2001). To the shareholders who are not part of the family, the family-internal managers are rather anonymous business partners they do not fully trust. This is why family-run businesses with little family influence are more likely to have established institutional monitoring measures than businesses with strong family influence (Schulze et al. 2003). For "whereas Agency theory assumption is that ownership and monitoring efficiently align shareholder interests in public firms, behavioral economic perspectives suggest that ownership can have the opposite effect when firms are private and family-managed" (Schulze et al. 2003). For, as already mentioned, "the need to monitor family agent conduct is reduced because familiarity and the intimate knowledge gained from long association facilitate communication and promote cooperation among family owners and family agents" (Schulze et al. 2003).

So we can make the following conclusions:

Hypothesis 1a:

The higher the proportion of the family in the ownership, the more the controlling function of the *Aufsichtsgremium* decreases.

Hypothesis 1b:

The higher the proportion of the family in the ownership, the more the medition function of the *Aufsichtsgremium* increases.

Hypothesis 2a:

As the family's influence on the corporate values rises the controlling function of the *Aufsichtsgremium* decreases.

Hypothesis 2b:

As the family's influence on the corporate values rises the mediation function of the *Aufsichtsgremium* rises.

On the other hand, the family can exert influence on the business in their function as manager of the company. This means:

Hypothesis 3a:

As the influence of family members in the management rises, the controlling function of the *Aufsichtsgremium* decreases.

Hypothesis 3b:

As the influence of family members in the management rises the significance of the mediation function of the *Aufsichtsgremium* rises.

Hypothesis 4a:

The higher the proportion of family members in the advisory board, the more the advisory board serves monitoring purposes.

Hypothesis 4b:

The higher the proportion of family members in the advisory board, the less the advisory board serves mediation purposes.

Hypothesis 5a:

As the number of generations in the business rises, trust decreases and the monitoring function of the Aufsichtsgremium gains significance.

Hypothesis 5b:

As the number of generations in the business rises, the mediation function of the Aufsichtsgremium loses significance.

3. Methodology and Results

The data for this study were obtained by the institute for SME research (ifm) in Mannheim. The ifm carried out an empirical survey by conducting telephone interviews with 588 German businesses employing between 100 and 499 people. These businesses had been randomly selected and form a representative extract of the given population. All businesses were intensively questioned about the composition of their supervisory boards and how these supervisory boards complete their tasks. Further questions could be asked in order to determine an F-PEC value for each business, composed by the components Power (management, ownership and board), experience and culture. [7]

The businesses that we included in our research study belong to the manufacturing industry (31%), the building sector (6%), commerce (10%), business-oriented services (16%), the catering industry (1%), other services (23%), and other sectors (ca. 11%). According to the results obtained by our study, 41% of German businesses of the dimension examined have an *Aufsichtsgremium*. In the present evaluation only businesses that have an *Aufsichtsgremium* were taken into consideration. So our sample consists of a total of 203 observations.[8]

Family influence was observed in various dimensions by using the F-PEC scale developed by Astrachan et al. So the proportion of family members in the management and in the *Aufsichtsgremium* was taken into account as well as the number of family members who are shareholders. Furthermore, the number of generational changes that have already taken place in the management and the *Aufsichtsgremium* play a role. The family's influence on the values that are important and that are held in the business were determined by using a questionnaire developed by Astrachan et al.

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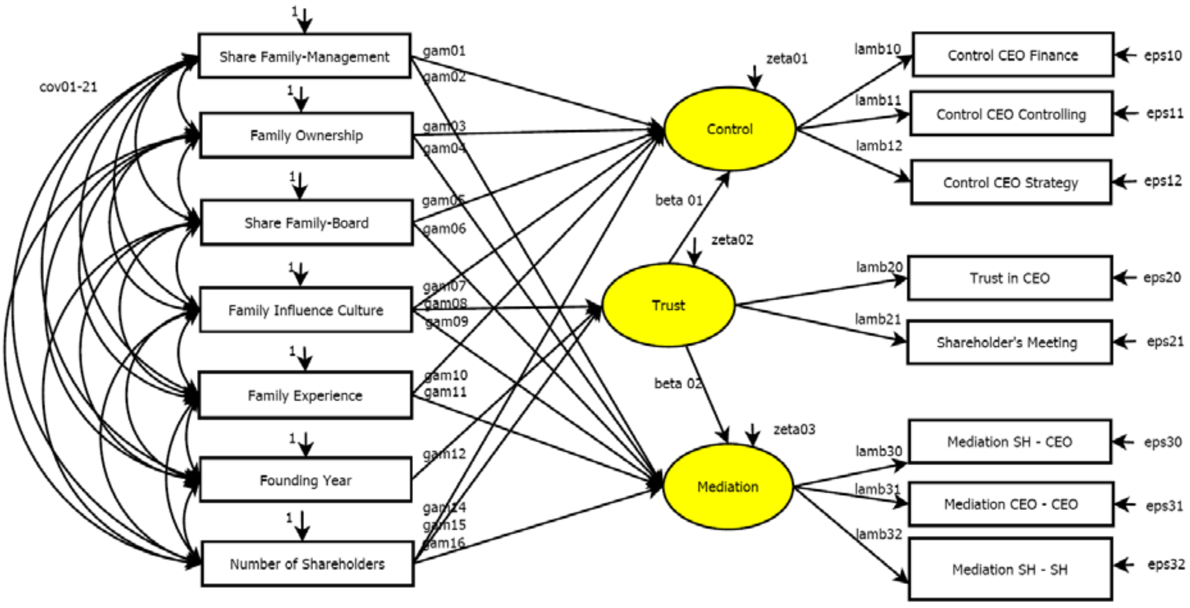
[7] See Chrisman et al. 2004

[8] Some data sets could not be taken into account due to missing values.

To verify the hypotheses of to which extent family influence in the management and the advisory board as well as in controlling the ownership plays a role for the development of the advisory board's controlling and mediation function, a path model as given in figure 1 was established. This path model makes it possible to examine the influence of the F-PEC, divided into its components, on the mediation role and the control behaviour of the *Aufsichtsgremium* simultaneously and in mutual control.

Figure 1: Path model of the influence of the F-PEC components on the controlling and mediation function of an advisory board in businesses



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We can expect that the situation of trust of the shareholders with the management of the business has direct effects on the controlling and mediation function of the advisory board. This is why there are three latent endogenous variables in the path model: controlling and mediation function of the advisory board and the situation of trust between shareholders and management which for its part is decisive for the other two latent variables. According to Drozdow and Carroll (1997), the situation of trust is determined by the age of the business and/or the duration of ownership by the owners, possibly the owning family. We can also assume that the number of shareholders exerts influence on the situation of trust just as much as the potential influence of the corporate culture by the owning family, as it is expressed by the respective F-PEC component. We would also like to postulate that the number of shareholders also has a direct influence on the controlling and mediation activity of the advisory board.

On the other side of the path model it suggests itself to generally depict the three latent variables in the measurement model through specific variables concerning the functional tasks of the board as well as the control situation of the management by the shareholders. This can be seen in figure 1 of the path model.

203 complete data sets are available for the estimation of the path model. The model consists of 57 parameters that are to be estimated and 120 moments. So we can assume the

identifiability of the model. One of the requirements for the estimation of the path model as given here is the multivariate normal distribution of the manifest variables. The univariate examination of the distributions raises serious doubts about the assumption of normal distribution for particular variables. The test for a multivariate normal distribution clearly shows (Normalized Multivariate Kurtosis = 21.88) that the validity of the requirement of a multivariate normal distribution is not given for our model. Since the transformation of variables does not lead to considerable improvements and since the interpretation is complicated by the many Likert scales involved it would be wrong to use a maximum-likelihood estimation. Using Browne’s ADF estimation (1984) might be a solution. Since this estimation method gives better and thus less distorted results on the basis of a correlation structure and since the covariance structure is not necessary for the significance of our model, the estimation of the parameters is based on the correlation matrix of the manifest variables.

In addition, we applied a bootstrapping in order to secure the results of the path model. This was necessary because there was a clear deviation from the multivariate normal distribution of the manifest variables and because the ADF estimation requires relatively big samples. So we drew 1.000 bootstrapping samples. On the one hand, they were drawn from the original sample in order to estimate the parameters. On the other hand, the samples were drawn from the data matrix transformed according to Bollen-Stine to determine the model fitting. The ADF estimation for the path model was applied to each of these bootstrapping samples.

So what about the measures for the model fitting of our path model from the original sample? The ratio of the Chi-Square value (109.02) to the number of degrees of freedom (63) is 1.73. This means it is far below 2.5 as a theoretical limit so that we can assume that the model accuracy is satisfactory. Further measures of goodness of fit as shown in chart 1 also suggest an acceptable model fitting. The values for the SRMSR (0.0717) and the RMSED (0.0601) are merely acceptable (up to 0.08). The values for the AGFI, the CFI as well as the NFI, however, are clearly above the required threshold of 0.09. Taking a look at the result for the model fit on the basis of Bollen-Stine´s bootstrapping, it becomes clear that the values for the SRMSR (0.0728) and the RMSEA (0.0667) are slightly elevated. Yet this does not question the model fitting. Regarding the values for the AGFI, the CFI and the NFI, there are no significant changes after the bootstrapping. So we can assumes that the model fit is absolutely acceptable.

Chart 1: measures of the model fitting

Modeling Info	N Observations	203
	N Variables	15
	N Moments	120
	N Parameters	57
	Chi-Square	109.0186
	Chi-Square DF	63
	Pr > Chi-Square	0.0003
	Standardized RMSR (SRMSR)	0.0717
	Goodness of Fit Index (GFI)	0.9997
Parsimony Index	Adjusted GFI (AGFI)	0.9993
	RMSEA Estimate	0.0601
	McDonald Centrality	0.8928
Incremental Index	Bentler Comparative Fit Index	0.9952
	Bentler-Bonett NFI	0.9888
	Bentler-Bonett Non-normed Index	0.9921

Therfore the estimated parameters of the model are worth taking a look at. The estimates from the original sample are listed in chart 2.

First of all we will take a look at the three components of the measurement model for the latent variables. It is valid for all variables involved that the critical ratio (C.R.) value is far over 2. If the critical ratio falls below 2 it can be assumed that the path coefficient between the latent variable and the measurement variable is not significantly different from zero. Therefore, the measurement variable cannot be regarded as an implementation of the latent variable. This means that in the case of computing from the original sample our model fitting is valid for all manifest variables in the measurement model. Regarding the results of the bootstrapping, the last two columns of chart 3 display for the path parameters the values for an estimated confidence interval of 90% with a distortion correction according to Stine (1989). If this interval encompasses zero, this means that we cannot assume that the given parameter is different from zero and that there is a correlation/path. When comparing the parameter estimates for the measurement model, the two parameters lamb20 and lamb21 are inconsistent with the original estimation as given in chart 2. After the bootstrapping estimation both bias-corrected confidence intervals of these parameters are above zero. Therefore, they should not be considered to be significant. Although the original estimation revealed a significance, this part of the measurement model referring to the latent variable trust is worthy of improvement. All other paths of the measurement model prove very stable. According to the original estimation as well as to the bootstrapping they are significant and reflect the latent variables controlling function and mediation function of the Aufsichtsgremium very well.

What about the explanatory part of our path model? At first when we look at the situation of the estimation from the original sample given in chart 2 it can be established that our requirements for determining the situation of trust appear to be justified. The year when the business was taken over/ founded, the number of shareholders as well as the level of determining the corporate culture by the family exert influence on the situation of trust (C.R. gam12 = -2.30, C.R. gam15 = -4.38 und C.R. gam08 = 5.59). This means that the older the business is, the less shareholders there are and the higher family influence on the corporate culture is, the better the situation of trust is.

The results of the bootstrapping estimation indicate the same and are significant, too. This can be seen when taking a look at chart 3.

Let us take a look at the results for the determination of the *Aufsichtsgremium*'s controlling function. In terms of the estimate from the original sample, it becomes clear that the paths between the family's proportion of the equity shares (gam03), the direct participation of the family in the management (gam01) and the controlling function are insignificant. This is also the case when it comes to calculating the paths after the bootstrapping. It becomes obvious when looking at the bias-corrected confidence interval in chart 3. In the original estimation the path coefficients between the family's influence in the advisory board (gam05), the family's experience in terms of leadership and ownership (gam10) as well as the controlling function have a critical ratio of above two (see chart 2). So they would have to be regarded as being significant. However, after the bootstrapping estimation (chart 3) it is found that corresponding bias-corrected intervals compass zero. Therefore they cannot be regarded as being statistically significant. As a result, the connection between the number of shareholders in the business (gam14) and the controlling function of the advisory board remains the only statistically significant path that stands after both the original estimation and the bootstrapping estimation. This leads to the conclusion that the more shareholders a business has, the more the controlling function is emphasized by the advisory board.

When it comes to estimating the path coefficients for the connection between the mediation function of the *Aufsichtsgremium* and its potential determinants, we can see that there is a concordance between the original estimation and the bootstrapping regarding statistical insignificance. So the connections between the family's capital share (gam04), direct family influence on the management (gam02), the family's experience in terms of ownership and leadership (gam11), and the mediation function of the advisory board are not significant for both calculations. There is a different statistical assessment regarding the path between the family influence in the advisory board (gam06) and the mediation function. While the original estimation identifies this path coefficient as being statistically significant (chart 2), the corresponding bias-corrected confidence interval is above zero. So we cannot assume that this is a statistically significant path. Concordance between both estimation methods is given in terms of the links between the family's influence on corporate culture (gam09), the number of shareholders in the business (gam16) and the advisory board's mediation function. Both path coefficients are statistically stable. So we can assume that the mediation function of the *Aufsichtsgremium* is emphasized all the more if the family's cultural influence in the business decreases, or if the number of shareholders rises (chart 2).

After the estimation from the original sample the path coefficients concerning the influence of the situation of trust on the controlling and mediation function cannot be rejected. In this case both values of the C.R. are above 2 (Chart 2: C.R. beta01 = 3.67, C.R. beta02 = 4.96). Yet this result from the bootstrapping estimation for the bias-corrected confidence interval is inconsistent with the result for the path between the situation of trust and the controlling function of the *Aufsichtsgremium*. Since the interval encompasses zero it cannot be assumed that this correlation is of statistical importance. So it can be concluded that a greater situation of trust in the business leads to an increased mediation function of the advisory board.

Chart 2: Path parameters of the model

Path	Parameter	Estimated Value	Stand. Error	C.R.
Control CEO Finance <- Control	lamb10	1.14987	0.06816	16.87021
Control CEO Controlling <- Control	lamb11	1.08737	0.06866	15.83640
Control CEO Strategy <- Control	lamb12	1.02881	0.06390	16.09907
Trust in CEO <- Trust	lamb20	0.26723	0.04387	6.09162
Shareholder’s Meeting <- Trust	lamb21	0.19486	0.03780	5.15475
Mediation SH-CEO <- Mediation	lamb30	1.13729	0.18782	6.05522
Mediation CEO-CEO <- Mediation	lamb31	0.92451	0.15006	6.16084
Mediation SH-SH <- Mediation	lamb32	1.01204	0.16369	6.18250
Control <- Family Influence Culture	gam07	-0.61672	0.22839	-2.70029
Control <- Family Experience	gam10	-0.26225	0.11152	-2.35154
Control <- Share Family-Manag.	gam01	-0.07438	0.08740	-0.85097
Control <- Family Ownership	gam03	0.05069	0.07916	0.64039
Control <- Share Family-Board	gam05	0.28705	0.10273	2.79406
Control <- No of Shareholders	gam14	0.34199	0.15672	2.18222
Trust <- Founding Year	gam12	-0.15107	0.06557	-2.30403
Trust <- No of Shareholders	gam15	-0.66785	0.15241	-4.38203
Trust <- Family Influence Culture	gam08	1.09184	0.19533	5.58964
Mediation <- Share Family-Manag.	gam02	0.02405	0.07266	0.33100
Mediation <- Fam. Influence Cult.	gam09	-1.30627	0.29791	-4.38475
Mediation <- Family Ownership	gam04	0.01968	0.08999	0.21871

Mediation <- Family Experience	gam11	0.06966	0.12771	0.54545
Mediation <- Share Family-Board	gam06	0.29751	0.10283	2.89333
Mediation <- No of Shareholders	gam16	0.61381	0.21689	2.83001
Control <- Trust	beta01	0.54150	0.14772	3.66564
Mediation <- Trust	beta02	0.88343	0.17797	4.96403

What do the results of the estimation of the path coefficients mean for the assessment of our hypotheses?

In terms of direct family influence in the management as written in hypothesis 1, it becomes clear that the respective path coefficients are below 1 (C.R. gam01 = -0.85 und C.R. gam02 = 0.33). So it must be assumed that influence of the family power in the management on the controlling and mediation function of the *Aufsichtsgremium* cannot be proved.

Regarding hypothesis 2 (rising family influence in the *Aufsichtsgremium* has effects on the controlling and mediation function of the advisory board), the path model shows that as family influence in the advisory board rises the controlling and mediation activity also rises and that hence there is some kind of influence (C.R. gam05 = 2.79 und C.R. gam06 = 2.89).

In terms of hypothesis 3 (as family power rises in the ownership the advisory board controls and mediates more often), it becomes clear that both path coefficients are below 1 (C.R. gam03 = 0.64 und C.R. gam04 = 0.22). Also in this case it must be assumed that these coefficients are not statistically significantly different from zero and that as a result there is no influence of the family power in terms of the ownership situation on the controlling and mediation function of the advisory board. It should be noted that if a family owns the company this does not have an influence on the control and mediation function of the *Aufsichtsgremium*. The number of shareholders, however, does have an influence on the controlling and mediation function of the advisory board. This becomes obvious when looking at the C.R. values. (C.R. gam04 = 2.18 und C.R. gam16 = 2.83).

4. Discussion and Conclusion

The goal of our study was to analyze whether the level of family influence affects the activity of the *Aufsichtsgremium* in family businesses. In order to achieve this goal we examined the function of the *Aufsichtsgremium* in 203 businesses. We assumed that family influence has an effect on the business situation, which means on whether a stewardship or an agency environment is predominant. We also assumed that the business situation in turn has effects on the function of the *Aufsichtsgremium* and that this situation is reflected by the functions of the *Aufsichtsgremium*. Family influence on the respective businesses was determined by using the power components of the F-PEC scale developed by Astrachan et al. The hypotheses we made were formulated in such a way that in businesses with rising family influence, measured against the power components, a stewardship environment tends to prevail which is characterized by an atmosphere of trust and the fact that it is of only little importance to the advisory board to monitor the management. An agency environment was expected to be predominant in businesses with little family influence which are characterized by less trust and the fact that the *Aufsichtsgremium* strictly monitors the management. On the other hand we assumed that as family influence rises the mediation function of the *Aufsichtsgremium* is getting more important since this means that a stewardship environment is predominant and the *Aufsichtsgremium* therefore increasingly tries to achieve consensus.

The results showed that neither the percentage of equity that a family owns in the business nor the proportion of family power in the direct management influences the task completion of *the Aufsichtsgremium* and the business situation.

The proportion of family members in the *Aufsichtsgremium*, however, has a significant influence on the functions of the board. We could see that in businesses with a rising level of family influence in the *Aufsichtsgremium*, measured against the proportion of family power in the board, the controlling as well as the mediation function are carried out more often.

Concerning the environment (stewardship or agency) this result cannot be clearly interpreted. So we can only establish that family influence in the *Aufsichtsgremium* clearly influences the functions of the board. However, it is not possible to say in which way family influence exerts influence on the functions of the board. Is there more control because the family members mistrust the managing persons, or is there more mediation because these board members want to create an atmosphere based on trust? Or do the family-internal board members want to control and mediate more often because usually an agency environment prevails? Perhaps it can be assumed that the possibility of the family to exercise control by being a member of the *Aufsichtsgremium* creates a special atmosphere of trust which effectively leads to a neglect of control.

The examination demonstrated a difficulty that is to be examined in greater detail in future studies.

In the end, the results of this research study show that discussing the question of differences in the business environment of family and non-family businesses as well as their influence on how the *Aufsichtsgremium* completes its tasks is an interesting field of research. Further studies seem worthwhile. In a next step the other model variables will be examined in greater detail and included into the interpretation in order to make clearer statements.

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