

## Chapter 19

# Directions for Future Research

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### Abstract

This chapter focuses on the ideas and proposals of the “conference,” i.e., suggestions for future research put forward by the conference participants as a group, working for two days on this subject. These research proposals include inter alia: the potential difference between the family constitution in its written form and the constitution in its practiced form; heterogeneity versus standardization of family constitution content (because of some dominating consulting approaches); the effect of national legal frameworks and traditions on the prevalence of the family constitution and its content in different countries; opportunities in large sample quantitative studies.

*Keywords:* Family constitution; development stage of the family constitution; application stage of the family constitution; gap between practice and written family constitution; revising the family constitution; heterogeneity versus standardization of family constitutions; national legal framework’s effect on the family constitution; intra-family conflicts as club/public goods problem

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The Hamburg Conference: Law and Management of Family Firms is a *research* conference. So, what are the main findings of the conference in terms of recommendations for future research? In this short chapter, we would like to highlight the *specific* contributions of this *conference*. “Specific” meaning that we do not want to develop the broad, encompassing picture of research opportunities in the field of family constitutions in general. Those ideas developed in extant literature are covered to a large extent in the surveying chapters by Fleischer, and Prigge and Mengers. Instead, this chapter focuses on the ideas and proposals of the “conference,” i.e., suggestions put forward by the conference participants as a group, working for two days on this subject. Thus, our role in this chapter is only that of clerks, documenting what originated from the joint work of the participants.

There was great consensus that the family constitution as an object of analysis has to be understood as a phenomenon consisting of two stages: the development stage and the application stage. Moreover, during the second stage, actual practice might diverge from the written form, thus, a further distinction between written form (document) and practice might be necessary. To be sure, these are by far not brand-new findings, however, they have major implications for any analysis of the effects or the determinants of a family constitution. (From here on, the term “family constitution” is used to designate the complete phenomenon, including all stages; if only a certain stage or aspect of the family constitution is discussed, it will be explicitly indicated.) Some of these implications matter for the research topics discussed in what follows.

There was also great unity, that the development stage is of huge importance; it was even speculated that it might be as important or even more important than the application stage. That points to a highly relevant research field: What is the relative significance of development and application stage? Is it possible to separate the effects of the development stage on family and business from those of the application period? Another item in this research field is whether, and if so, how, the process for the initial family constitution differs from that for the revised family constitution.

Discussions often returned to the question of what extent the written rules of the family constitution are practiced. This issue implies that the document does not necessarily reflect the reality in the owner family. This is another area offering interesting research opportunities: To begin with an inventory topic, more information would be welcomed on whether this gap actually exists. Furthermore, it is of great interest how families deal with behavior diverging from the written rules. To name just two possibilities: Do they accept or even welcome it as flexible handling of rules in a complex and changing environment, or do they acquiesce grudgingly the rule violation by some family members simply because of a lack of enforcement options? In addition to that, if we know more about the gap between practice and written rules, it is easier to evaluate the informative value of document analyses of family constitutions.

Heterogeneity versus standardization was another major topic in our discussions. Heterogeneity among owner families and among family businesses is a major issue in current family firm management research. The conference added a new ingredient to this discussion stream as it explored the hypothesis that there

is a trend toward the standardization of family constitutions. (This part of our discussions based mainly on experiences from Germany.) The argument rests on the observation that there are only a few major players in the market for family constitution advisory services. Concentration is even stronger as former employees of these significant players more or less follow their old employer's approach when they offer family constitution services on their own. In the development stage and in the written document, the assumed standardized approach of the consultants meets family heterogeneity. Ex ante it is an open question whether and to what extent this assumed homogenizing effect indeed leads to more homogeneous development processes and documents. For the practiced family constitution in the application period, there are only the (heterogeneous) families acting, the potentially homogenizing effect of the consultants works only indirectly via their influence on the development process and document. Thus, it could be questioned whether the assumed standardization really goes beyond the structures of development process and document, resp., if it exists at all. In any case, this is another research field that could contribute valuable knowledge about family constitutions.

The degree of family constitutions' (understood in the very broad meaning) homogeneity is also seriously linked to large sample empirical studies. Graves et al. with the very first or one of the first large sample studies with a *separate* variable for the existence of a family constitution represent a significant advancement compared to previous large sample studies with a 0/1 *composite* family governance indicator variable. But the interpretation of studies like the one provided by Graves et al. depends very much on homogeneity. Generally speaking, a 0/1 indicator variable requires the assumption that the state which is coded "1" is homogeneous. However, if the variable "1" represents significantly heterogeneous development processes, document content, and constitution practices, the variable would only be statistically significant in a regression analysis if the family constitution (in the broadest meaning) exerts, despite all heterogeneity, a unified force on dependent variables like family or business performance. Insignificant results of a 0/1 family constitution variable need not necessarily indicate the absence of a link to the dependent variable, they could also be a consequence of the diverse settings represented by "1." Besides analyzing whether the assumed heterogeneity exists at all, small sample studies (single or multiple case studies) could try to develop more finely granulated variables to measure family constitutions, i.e., variables that go beyond 0/1 and reflect features like quality or issues dealt with in family constitutions (in the broadest meaning).

The few large sample studies provided so far ignore the time dimension. The 0/1 family constitution variable does not reflect how many years ago the development process was concluded. This lack of consideration of the time dimension is particularly relevant if the development process is assumed to be so eminently important. From a technical perspective, the integration of this variable in the analysis of the large sample studies should be possible without problems. But most probably, that information was not collected. The results for such a time variable could contribute to estimate the relative importance of development stage compared to application stage.

Analyzing family governance and, in this case, family constitutions require a theoretical foundation. So far, research of family firm management has been a net importer of theories and concepts from other economic fields that were then adapted for application in family firm management. An innovative idea was developed in the discussions. It bases on the observation that intra-family conflicts often root in conflicts between the interests of the individual family member and the interest of the family (and the family firm) at large. This structure resembles the basic problem occurring with club/public goods. For these goods, it might be that individual and collective rationality conflict with each other, leading to suboptimal outcomes for everybody. This field of research has been developed over decades, yielding a rich set of analytical approaches and mechanisms to mitigate such negative effects. It might be worthwhile to study whether this similarity could be exploited to transfer some of the concepts developed for these goods to the family firm context.

Another aspect from the discussion that points at a worthwhile research field is linked to the international dimension. Part of the conference discussions focused on the reasoning that different cultures have different ideas of the family and family cohesion which in turn could be expected to have an effect on the family constitution. This cultural component of the international dimension might not be new to the literature, so it does not need further consideration here, but a second nuance of the international dimension was also developed in the discussion. Its interdisciplinary character fits very nicely to the very basic idea of this conference series. It was debated that the respective national legal framework might have an effect on how the family constitution document might be set up. What is already regulated in national laws or typically settled in other legal documents? What is the probability that some kind of legally binding power is or will be attached to the family constitution? If such effects of the legal framework on the family constitution exist, it would not be a surprise if this in turn then affects the development process and the family constitution practice.

From a legal point of view, participants conjectured that the legal effects of family constitutions might become stronger in the future – a prediction that deserves further attention. In addition to that, it will also be interesting to observe whether certain types of family constitutions will travel around the world as private legal transplants, comparable to certain types of M&A contracts. Furthermore, one could explore more closely how different legal systems integrate the various legal sources of family governance into a coherent framework. As far as the emerging corporate governance industry for family businesses is concerned, it may be promising to examine the influence and market share of competing actors such as lawyers, accountants, and management consultants in shaping family constitutions, both nationally and internationally.