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# Family protocols as governance tools

## Understanding why and how family protocols are important in family firms

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### Abstract

**Purpose** – The purpose of this paper is to focus on the family protocol as a governance policy tool that can help ameliorate intra-family conflict and enhance the probabilities of survivability of the family business.
**Design/methodology/approach** – Using equity theory and organizational justice as theoretical frameworks, the authors explain how and why the development of a protocol can help the family firm and their survivability. The authors combine academic and practitioner knowledge to present a process model for creating family protocols.
**Findings** – Based on four important considerations (i.e. process view, deep knowledge about the family business, dynamic environment, and the need for change and adaptation) the authors develop a process model for the development of family tailored protocols.
**Originality/value** – This paper integrates the work of practitioners and academics to help understand what is a family protocol, why and how the protocol affects the family and business relationships and presents a procedural model for the development of a family protocol that can help govern the relationship between the family and the business.

**Keywords** Corporate governance, Communication, Conflict avoidance, Family constitution, Family protocols
**Paper type** Conceptual paper

Family firms are unique organizations in which three subsystems interact: family, ownership, and business (Tagiuri and Davis, 1992). The literature on family owned businesses has often focussed on the unique characteristics of these organizations and the challenges they face (Sharma, 2004). One challenge that is of great interest for academics and practitioners is the continuity of family firms (i.e. how can family firms remain a viable organization through different generations?). In the academic field, most of the research on continuity has focussed on the succession process (Miller *et al.*, 2006; Long and Chrisman, 2014) and the governance structures in the family firm (De Massis *et al.*, 2012; Mustakallio *et al.*, 2002; Suess, 2014). Succession planning and governance structures are important because they can help diminish some of the conflicts that may occur in the family and the business before and during the transition of ownership and/or management from one generation to another (Le-Breton-Miller *et al.*, 2004; Suess, 2014). Family conflicts during succession stages have been recognized as a source of tension that can affect the survivability of the family firm and the succession process (Kidwell *et al.*, 2012).

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Previous research indicates that family firms are fertile grounds for conflict (Harvey and Evans, 1994; Kellermanns and Eddleston, 2007). The overlap between the family, ownership, and business subsystems can result in struggles that affect both the family dynamics and the business performance (Olson *et al.*, 2003). Although families show great variation in the levels and types of conflict that they deal with (Heck, 2004), the negative conflicts that occur between family members about the business are likely to affect the survivability of the family firm (Kellermanns and Eddleston, 2007). These clashes between family members can arise due to unmet expectations regarding the distribution of resources between family members (e.g. profits and dividends), the different roles that family members can take in the firm and the requirements for those roles, or the benefits and responsibilities that come with ownership in the firm, just to mention a few. One of the reasons for why these conflicts may be harmful to the family and the business is that when family members perceive that the family firm has not fulfilled their obligations to them, they might withdraw from the firm, and feel entitled to retaliate against the organization to maintain perceptions of equity (Kidwell *et al.*, 2012).

Although there are multiple ways to prevent and manage harmful conflict situations, researchers have suggested that leadership practices, structural changes, and governance practices and policies can create conditions for discouraging misunderstandings that can lead to harmful conflict situations (Cohen, 1993; Mustakallio *et al.*, 2002; Suess, 2014). Academics and practitioners in family business often suggests that families should develop policies and governance structures that help the family manage the relationships and roles that involve the family, ownership, and business dimensions of the firm (Aronoff *et al.*, 1998; Gallo and Tomaselli, 2006; Ward, 2000). One of those policy mechanisms is the family protocol[1] (i.e. family constitution). Family protocol is a term coined by Ward and Gallo (1992) to describe a document that articulates the family policies that guide the relationships between family, ownership, and business roles in a family firm. Protocols enable family firms to regulate, manage, and prevent problems by explicitly outlining and articulating expectations and considerations necessary for the management of the interrelationships between these three subsystems. The belief is that having guidelines that regulate areas for potential conflict will help family firms prevent and manage conflict situations that can appear in family, ownership, and/or business subsystems due to expectations, rights, and responsibilities associated with being a member of the owning family (Berent-Braun and Uhlaner, 2012; Suess, 2014). These family governance tools, in turn, enhance family, ownership, and business processes (i.e. family cohesion, trust between family members, understanding of roles in the business, understanding goals and objectives, and lower conflict) that improve the quality of relationships between family members, and increase chances for the continuity of the family firm (Berent-Braun and Uhlaner, 2012; Suess, 2014).

Up to date, there is not much empirical, conceptual or descriptive research that is published in the area of family protocols and constitutions (Suess, 2014). There are at least two reasons for this. First, the family protocol is a topic that interests family business practitioners primarily. Because of this, most of the work that exists is practitioner driven and focusses more on the content of protocol and less on understanding how the protocol is created and the different theories that can help explain why these governance tools can help family firms manage and deal with family conflict (see Montemerlo and Ward, 2011). Second, the focus on content has lead to the perception that family protocols are cookie-cutter documents. That is, protocols are seen as documents that have a fixed content and do not need to be tailored to each family. Taking this point of view would suggest that all family firms have the same problems and need to deal with these problems in similar ways. Together these two points indicate that we have an incomplete understanding of family protocols in the context of family firms. With this in mind, this paper builds on academic and practitioner knowledge on family protocols to achieve three objectives. First, we review existing literature to identify a definition for the term "family protocol," and explain what we currently know about this concept. Second, we use equity theory (Adams, 1963) and organizational justice (Greenberg, 1990; Greenberg and Colquitt, 2005) as theoretical frameworks to explain how and why family protocols can influence family and business processes. And, third, we present a process model that provides important considerations for the development of family protocols. By addressing these three objectives our paper contributes to academic knowledge by further developing our understanding of the importance of family governance structures for the success of family firms. Our work can also have important contributions to practitioners by providing a framework that can be used when helping family firms develop their family governance structures. Finally, our work is relevant to family business owners because it can help them understand that a family protocol can be a tool that outlines in advance what procedures to follow in different situations that can occur when managing relationships between family, business, and ownership subsystems.

## Family protocols

Family firms face multiple difficulties that can harm their long-term survival. One of these difficulties stems from how family members manage relationships and interactions in the family, business, and ownership subsystems of the family firm. Although family firms strive for balance between business and family, the needs/problems of the family often take priority and can affect the performance of a firm (Brenes *et al.*, 2003). Thus, conflicts between family members can spill and hurt the functioning of the family business. Intra-family conflicts in owning families can occur because of multiple reasons. For example, family members that work in the business can perceive inconsistencies in their treatment. Family members can also have unmet expectations of what the firm should offer a family member. Similarly, there may be a concentration of decision-making power in one or a small group of family members, or family members can perceive differences due to the distribution of profits and/or dividends between family owners of the firm. Family members can also have different levels of risk aversion or risk propensity, which can affect decisions made about the business and the ownership of the business (Hiebl, 2013). These can create a lot of tension between family members and the business that will affect how they work. Part of the reason for these tensions is the psychological contract that family members create with each other and the family firm (Kidwell *et al.*, 2012; Bernhard and O'Driscoll, 2011). Psychological contracts encompass an individual's belief about the obligations that have been negotiated between themselves and another party (Rousseau, 1995; Rousseau and Tijoriwala, 1998); and are based on the "perception that a promise has been made and a consideration offered in exchange for it, binding the parties to some reciprocal obligation" (Rousseau and Tijoriwala, 1998, p. 679).

Although psychological contract has been primarily used to understand employment relations (Zhao *et al.*, 2007), it can also be used to understand relationships between a family member and their family firm. In this case, the psychological contract would represents the expectations and beliefs that a family member holds about their relationship with the business and the expected outcomes of that relationship. A problem with these types of contracts is that they are implicit in nature. That is, the perception about the obligations exchanged can be very different between the two parties involved in a contract. Therefore, individuals are likely to hold the other party accountable based on the expectations that they have about how the other party should behave. These expectations that individuals have are formed from the information that family members gather about the organization and the family through observation, interpersonal interactions with other family members, and/or other interactions. In this sense, the psychological contract between a family member and the family firm is centered on what the family member perceives to have been agreed to or promised by the family firm, which may inconsistent with what is explicitly promised by those in charge of the family business.

Family members reactions to their psychological contracts with the family business are important. On one hand, when they perceive that a violation to their psychological contract has occurred (e.g. the firm has not fulfilled their obligation to the family member, or there is a perceived inequity in the treatment of family members), they may feel the need to retaliate or to withdraw from the firm creating conflict between family members, or between a family member and the firm (Kidwell *et al.*, 2012). On the other hand, when an individual believes that their psychological contract has been fulfilled, they are more likely put more effort toward the firm to help the firm succeed (Kidwell *et al.*, 2012). One of the ways to help prevent the perception of violation of a psychological contract between a family member and the family firm is through the family protocol. Family protocols can be an important tool to clarify the expectations that family members have about their rights and responsibilities regarding their relationship with the family firm.

The idea of a family protocol has been described using multiple terms and definitions. But, in general, it refers to a written document that explicitly articulates and describes the policies that guide the relationship between family, ownership, and business in a family firm (Berent-Braun and Uhlaner, 2012; Leach and Bogod, 1999; Poza, 2010; Tapies and Ceja, 2011). This document explains the norms and procedures that families will follow to manage issues such as the distribution of profits or dividends, the requirements for working in the business, some parameters for making decisions about the business and the family (i.e. the level of risk a family is willing to take when entering new industries, or the management of family funds in order to grow the business) and the rights and responsibilities for being an owner of the firm (Montemerlo and Ward, 2011). The purpose of family protocols is to provide guidance and facilitate open and constructive discussion of issues (Berent-Braun and Uhlaner, 2012). This open communication, in turn, helps maintain and reinforce the unity among family members, helps family members understand their rights and responsibilities as owners of a firm, and helps maintain the values that strengthen the family, the family business, and the commitment to the success of the business over time and over generations (Gallo and Tomaselli, 2006; Suáre and Santana-Martín, 2004; Tapies and Ceja, 2011). Protocols are developed based on the input of multiple family members and help articulate and clarify the expectations of the family in advance to reduce the possible conflict between family members and can also help managing conflict when it arises.

## Family protocols as governance tools

In the literature, the family protocol is often presented as a governance practice created to manage the professional and economic relationships between family shareholders regarding the family business (Chinner, 2004). In its broadest form, corporate governance deals with the structural and process components of how firms work. In the family enterprise, governance practices serve a specific role in the ownership, business, and family subsystems (Gersick and Feliu, 2014). For the ownership subsystem, governance practices and policies help achieve compliance with legal and accounting norms, establish and monitor the structures that hold owners' equity, set risk, and return parameters, determining how returns will be distributed and other tasks that can serve the owners and investors of the firm. For the business subsystem, governance determines and enforces standards of performance, articulates the core values and cultural norms, helps define long- and short-term strategies, helps oversee human resource management, and helps avoid the interference of individual owners. Finally, in the family subsystem the role of governance serves the needs of the family [2]. This includes clarifying the rewards and demands of family membership in relation to the business, defining and communicating opportunities for involvement in all family ventures, facilitate information flow that enhances trust and minimizes manipulation, oversee non-financial aspects of the enterprise, and enhance belonging throughout the extended family.

Family business scholars suggest that a unique characteristic in the governance of family enterprises is that these forms of organizing have a relational component to their governance (Mustakallio *et al.*, 2002). In this relational model, family governance practices represent the general governance system of the family enterprise that deals with the processes and structures that are used to maintain order and ease in the relations between the business family and the business in general and management in particular (Berent-Braun and Uhlaner, 2012; Mustakallio *et al.*, 2002; Suáre and Santana-Martín, 2004). Family governance is not mandatory and, thus, includes voluntary mechanisms established by the business family with the purpose of governing and strengthening the relationships between the family and the business, as well as the relationships of the family itself (Suess, 2014). The types of family governance range from informal family meetings to formal bodies such as the family office, the family foundation, and/or family committees designed with a specific purpose in mind (Ward, 2004). Researchers suggest that because of its voluntary nature each family is likely to create a unique set of family governance practices that reflect the values of the family, the type of business that is operated, and the level of development in the business (Suess, 2014).

Family protocols are a type of family governance practice that is based on the agreement of family members regarding the fundamental principles and guidelines that the family uses to organize their relationship with the business (Montemerlo and Ward, 2011; Suess, 2014). Gersick and Feliu (2014) highlight that, in the literature, family protocols are seen as complimentary to shareholder agreements and are viewed as a first-choice governance option inside the family subsystem, especially in Latin America and Europe. They argue that family protocols help articulate the values and culture of the family in relation to the firm, they help formalize rules of engagement in the family firm, and help clarify the obligations and requirements for participating in the benefits of future ownership in the firm. Thus, family protocols represent a governance practice that explicitly identifies and communicates the expectations and returns regarding family membership in the firm. As a governance and communication tool for owning families, the protocol can help prevent misunderstandings of expectations, perceptions of psychological contract violation, and perceptions of unfair treatment between family members in relation to the business. These factors can, in turn, diminish intra-family conflict situations that can lead to the loss of commitment from family members and a willingness to engage in retaliatory behavior toward the business or other family member. In the following section, we explain how and why family protocols can be useful governance practice to enhance commitment and continuity of the family firm.

## How and why should family protocols work?

Up to date there has been very little empirical work that explores how protocols work and the importance that they have as a form of governance in the family businesses (Gersick and Feliu, 2014). The few empirical studies conducted in this area find that family governance practices, which include the family protocol, are significantly related to having a shared vision as a family (Mustakallio *et al.*, 2002), to the quality and commitment of the decisions of the firm (Mustakallio *et al.*, 2002), and to the performance of the business (Berent-Braun and Uhlaner, 2012). Building on these findings Suess (2014) argues that family governance practices facilitate open communication between the family, which enables family members to interact in ways that can help build trust, and align the goals of the business and the family. By doing this, the family is able to increase family unit, mitigate conflict situations, and manage the conflict situations that arise between within the family and between the family and business. Although these findings provide some initial ideas of why protocols are an important form of family governance, we still know very little about why and how family protocols affect the management of relationships between the family and the business. In the following sections we build on previous work on equity theory and organizational justice to explain why and how family protocols diminish the harmful conflict between family members and the family firm that arises from differences in expectations.

Equity theory is a framework used to understand the need that individuals have to compare their actions and the outputs that they receive as a result of these actions in comparison to others. This theory suggests that, during interactions individuals evaluate inputs and outcomes of themselves and others to determine the fairness of a situation (Adams, 1963). The assumption is that individuals have clear expectations of what constitutes a fair treatment based on the norms of society or the norms of their group. When these expectations are violated, perceptions of inequity will form and cognitive dissonance occurs. Because of this dissonance, a person who perceives inequity will feel a tension that is proportional to the magnitude of the inequity felt, and will have the need to reduce this tension (Adams, 1963). In the context of family relationships, equity theory would suggest that family members are always comparing the inputs they and important others make toward the family and the business, and the outcomes they and other members receive in exchange. When individuals perceive that there is an inequity in the outputs received as a result of their inputs, they will feel inequity and try to restore their feelings of fairness. Family members can restore their feelings of equity by increasing their inputs when they perceive others are giving more, reducing the inputs when they perceive that others are not giving as much, they may try to increase the outcomes they obtain, they may decrease their inputs, or they may disassociate with the firm. By engaging in these behaviors family members will reduce their feelings of dissonance and avoid psychological strain.

Building on equity theory, we suggest family protocols are important because they help develop explicit guidelines for how inputs will translate into expected outputs. The development of a family protocol helps family members explicitly articulate the expectations regarding inputs and outputs that will govern the relationship between a family member and the rewards/benefits they can obtain based on their relationship with the business. By explicitly articulating these expectations the protocol functions as a family governance practice that can diminish harmful conflict between family members, and can serve as a tool to manage conflicts that emerge from perceptions of inequity in relationship to membership in the family and the business.

Another theoretical approach that can help us understand how and why protocols could diminish conflict in owning families is organizational justice. Organizational justice is an extension of equity theory that explains how individuals react after they perceive an inequity. The organizational justice literature focusses on understanding fairness in the workplace (Colquitt *et al.*, 2001; Folger and Cropanzano, 1998; Greenberg, 1990; Greenberg and Colquitt, 2005). However, it has been applied in the family business context to explain how family members can develop fair processes in the treatment of family, business, and ownership relationships (Van der Heyden *et al.*, 2005). There are three forms of justice that have been analyzed (Colquitt *et al.*, 2001). Distributive justice refers to perceptions of fairness about the distribution of resource, and includes evaluations about the distribution of pay, rewards, promotions, and outcomes (Adams, 1963; Colquitt *et al.*, 2005). Procedural justice reflects the fairness of the decision-making procedures that lead to outcomes (Colquitt *et al.*, 2005; Thibaut and Walker, 1975). The third type of justice, interactional justice, refers to the perceptions that individuals have about the nature of the interpersonal treatment received from others, primarily from key organizational authorities (Bies and Moag, 1986; Greenberg, 1993). Interactional justice can be broken down to interpersonal and informational forms of justice (Colquitt *et al.*, 2001; Greenberg, 1990, 1993). Interpersonal justice describes the degree to which people are treated with respect and dignity while informational justice refers to perceptions of fairness about explanations provided to people that convey info about why procedures or outcomes occurred (Colquitt *et al.*, 2005). Collectively distributive, procedural, and interactional justice represents facets of organizational justice that describe individual perceptions of fairness regarding incidents involving the organization.

In the organizational justice context individuals evaluate the distribution of outcomes, the procedures used to come up with these outcomes, and the way the rationale for the outcomes are explained to determine whether they have been treated fairly or not. During this process individuals will provide evaluations based on the expectations that they have regarding the inputs and outputs of the situation (i.e. their and other parties). As suggested by equity theory, unfairness will occur when a person believes that other people are receiving greater benefits from smaller inputs. This will trigger individual actions to try to restore feelings of fairness by changing their inputs or fighting for more benefits. Building on this idea, we believe that the family protocol is an important tool when managing the relationship between the family and the business because it can be used to articulate the procedures that are going to be followed in the distribution of benefits from the firm. In this sense, a family protocol help align the expectations and the behaviors of family members to avoid perceptions of unfairness in the distribution of resources (i.e. distributive justice). A protocol can also articulate the procedures of how and when benefits will be given to family members (i.e. procedural justice) and can act as a communication tool that explain who will provide information about benefits and how they will provide this information (i.e. interactional justice). In this sense, a family protocol can help family members create a standard of what is expected so they can receive the benefits they wish to obtain from the business. This can diminish perceptions of unfairness that can lead to conflict between family members.

When combined equity theory and organizational justice suggest that family protocols are an important governance tool in family firms because they provide information to family members that can help align their expectations regarding the benefits and responsibilities of family membership in relationship to the business. By doing this, family members have tools to determine whether they are being treated fairly in relationship to other family members, and if they perceive that they are not being treated fairly, they have a way to manage and negotiate the conflict in ways that may help them feel better and avoid loss of commitment toward the family firm.



## Considerations in the development of family protocol

Although the family protocol can be an important strategic tool to help the continuity of a family firm, there is very little research exploring how the protocol is developed. Most of the published work on family protocols up to date focusses on the content of the protocol, and less attention has been given to the process that families use to decide what to include in the protocol (Aronoff *et al.*, 1998) and what are the effects of using a family protocol in the performance and continuity of the family firm (Gomez-Betancourt *et al.*, 2013). The focus on content has an underlying assumption that a protocol is a document that can be used with minimal alterations for multiple family firms. We disagree with this assumption and, similar to previous authors (Gallo and Tomaselli, 2006; Tapies and Ceja, 2011), argue that given the unique characteristics of each family firm the process by which a protocol is developed plays an integral part of this family governance practice. Thus, in this section we focus on factors to consider during the process of developing a family protocol.

Family business scholars have argued that, given the differences between family firms, the process by which families develop a protocol is more important than the document itself (Gallo and Tomaselli, 2006; Montemerlo and Ward, 2011;Tapies and Ceja, 2011). The reason for this is that the process for protocol creation enables family members to reflect on their common interests, motivation, and aspirations to create a shared understanding of their vision (Mustakallio *et al.*, 2002; Tapies and Ceja, 2011). We believe that a process view of the family protocol is important because it suggests that during the creation of the family protocol family members are able to communicate and reach a consensus about issues that are important to them and to the family. This discussion can help family members identify areas of potential conflict, identify different risk levels that members are willing to take, identify goals that the family hopes to achieve through their involvement in the business, and develop strategies to deal with these issues before they become problematic and affect family functioning.

Based on this process view, we argue that there are four important considerations when studying, developing, and understanding the importance of a family protocol. First, the protocol is not a mere document that presents information to family members. In this paper we argue that when exploring family protocols it is important to view the protocol as a process. Protocols help formalize the rules of engagement of family members in the family business, and the expected rewards based on the level of engagement in the family firm. Thus, the process view implies that each family protocol is different but consultants may be able to follow a similar process in the creation of the protocol. Second, when developing a protocol it is important to have complete knowledge about the family firm. Tagiuri and Davis (1992) suggest that understanding the family firm involves the comprehension of three different subsystems (i.e. family, ownership, and business) and the level of overlap between them. This implies that successful protocols rest on the diagnosis and understanding of the family, business, and ownership subsystems to provide the foundation to understand what are the issues in each of these areas that the protocol needs to address. Third, it is important to consider that family firms are part of a dynamic environment. This means that the context in which the family, business, and ownership subsystems exist changes and this change can affect the needs of each of the subsystems. Because of this, we need to monitor and evaluate the family protocol to make sure that it can deal with the changes that affect each of the subsystems. And, fourth, successful family protocols need to change and adapt to the environment in which the family business operates. If protocols are not adaptable to the changes of the context of the family firm, this can affect the impact that the protocol can have in dealing or managing family conflict.

Based on these four important considerations we developed a model to better understand the process of creating a family protocol. Figure 1 provides a visual representation of our model. We begin with the assumption that family firms differ in terms of the degree to which the family is involved in the business (Chrisman *et al.*, 2005; Sudaramurthy and Kreiner, 2008; Zellweger *et al.*, 2010). Thus, before a family protocol is created it is important to understand the three subsystems and what are the expectations that family members have regarding each of these subsystems. Following this line of thought, the first step in developing a protocol is the diagnosis of the family firm. In this step, the researcher or practitioner collects information to clearly understand the three subsystems. During this time, researchers and/or consultants need to make sure they understand the point of view of the important stakeholders in the family, and need to ascertain if the different stakeholders view each subsystem in a similar way. By comparing how different stakeholders view each of the important

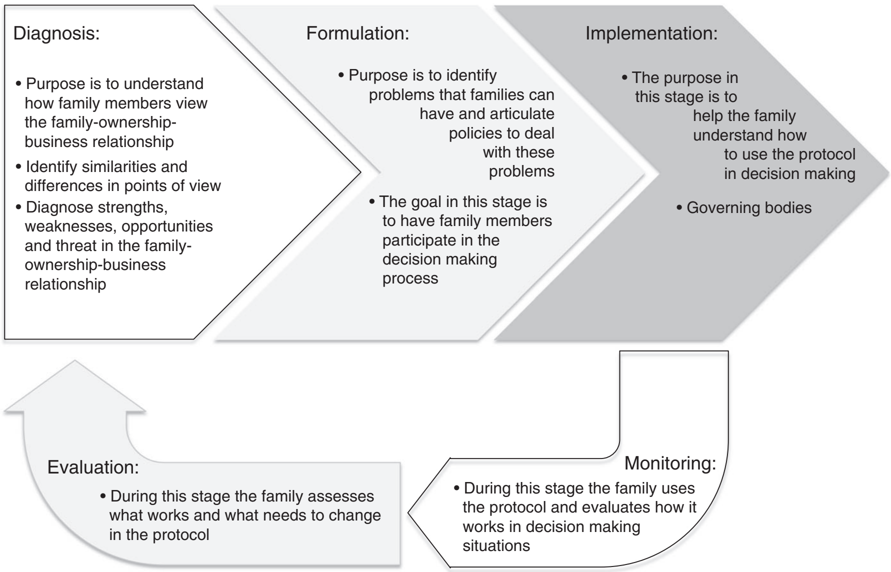


**Figure 1.**
A process model for developing family protocols

factors in the subsystems, researchers/practitioners can diagnose the strengths, weaknesses, opportunities, and threats that the family needs to consider, understand, and address when developing the protocol.

Previous research indicates that the characteristics of the family, ownership, and business subsystems can affect the viability of the firm (Le-Breton-Miller *et al.*, 2004). For example, research has found that issues such as family dynamics, family commitment to the business, the quality of the family-firm interface (i.e. the type of relationship between the family and the business), family governance structures, and family adaptability all play a major role in determining the expectations that family members have about the business, especially during the succession process (Le-Breton-Miller *et al.*, 2004). Building on this idea, we believe that to successfully development of a family protocol researchers/practitioners need to have an initial understanding of family dynamics, family commitment, family-firm relationships, and other family characteristics (e.g. the levels of risk each person is willing to take) to determine what are the expectations that family members have, what are areas of disagreement, and what needs to be addressed in the family protocol regarding the relationship between the family and the business.

The second set of information that is important during the diagnosis stage includes the ownership of the firm. There are three aspects of the ownership subsystem that will help the researcher/practitioner understand the problems and challenges that need to be addressed in the family protocol. First, there should to be a clear understanding of the ownership structure of the firm. This includes exploring the number of owners that exist in the firm, how individuals become owners, and what is the value that ownership brings to individuals. Second, researchers/practitioners also need to understand what are the expectations that owners have about their ownership of the firm. That is, what do owners expect to obtain from the firm, and why they have these expectations. Finally, the third component of ownership that is relevant in this context is the ownership structure. One area that is of particular importance for the protocol is what are the rights and responsibilities that owners have in the ownership structure of the firm. We believe that collecting information about these three aspects of ownership will provide a baseline for understanding the areas that need to be addressed in the family protocol to avoid future conflict as a result of business disagreements.

The third and final set of information that should be collected in the diagnostic stage is related to the characteristics of the business. Similar to the previous two subsystems, we divided the type of information that is relevant about this subsystem into four areas: general information about the business, governance structure of the business, organizational culture, and business strategy. Once again the information gathered from this subsystem can inform the researchers/practitioners the areas of conflict for the family and the different issues that need to be addressed in the family protocol. Table I provides some examples of the different areas that need to be assessed in the family, business, and ownership subsystems to thoroughly understand the needs of a particular family in relation to their business.

Once the diagnostic stage is concluded, the researcher/practitioner should have a clear understanding of the family, ownership, and business subsystems, and a clear assessment of the problems that the family can face given the expectations that family members have about their relationship with the business. This information will be useful during the second stage of the protocol development: the protocol formulation. Protocol formulation is the stage in which the family discusses the problems and articulates policies that can help deal with these problems to prevent future occurrences

| Subsystem | Important areas | Sample content for area |
|---|---|---|
| Family | Family characteristics | Number of family members |
| | | Number of family members involved with the business |
| | | Number of generations involved with the business |
| | | What are the competencies that family members have? |
| | Family dynamics | Family values and norms |
| | | Extent to which values are shared |
| | | Quality of family relations |
| | | Trust between family members |
| | | Family harmony |
| | | Inclusion and participation of relatives in law |
| | | Communication and sharing of information |
| | | Conflict management and resolution approaches used. |
| | | Collaboration between family members |
| | Family commitment to business | How do family members feel about the business? |
| | | What are the expectations family members have regarding the business? |
| | | The family members have common goals? |
| | | What aspects do family members like? |
| | | What aspects do they dislike? |
| | Family governance structures | Is there a family assembly? |
| | | Is there a family council? |
| | | Is there a family president? |
| | | Is there a family office? |
| | | Are there committees to help with family issues? |
| | | Who promotes family activities? |
| | | What can be the future leader of family issues? |
| | | What are the different roles in the family? |
| | | What are the responsibilities for each role? |
| | Family adaptability | How does the family deal with change? |
| | Quality of family-firm interface | Who can work in the family business? |
| | | What are the positions that they hold in the business? |
| | | How are family employees paid for their services? |
| | | How can family members join the business? |
| | Family vision | What are the future plans of the family? |
| Ownership | General information about ownership | How many owners are there? |
| | | How do family members become owners? |
| | | What is the value of the business? |
| | | How much value does the business represent to the family? |
| | | How do they teach family owners how to be owners? |
| | | What is the dividends policy? |
| | | What is the debt policy? |
| | | What is the risk appetite of each family member? |
| | | What ate the stock buy back policies |
| | Ownership expectations | What are the expectations that family owners have? |
| | | How are these expectations created? |
| | | What are the consequences of these expectations? |
| | Ownership structure and governance | What is the ownership structure of the firm? |
| | | Which companies belong to the family business? |
| | | What are the rights and responsibilities of the family owners? |
| | | Do shareholders do owners' council meetings? |
| | | Do shareholders do general shareholders assembly? |

**Table I.**
Areas of exploration in the diagnosis stage

(*continued*)

| Subsystem | Important areas | Sample content for area |
|---|---|---|
| | Ownership strategy | There is an ownership succession plan?<br>Owners have legal structures to protect and manage the ownership?<br>The owners have a strategy for managing all elements of the family wealth? |
| Business | General information about the business | What is the purpose of the business?<br>Characteristics of business (e.g. size and age)?<br>What is the economic state of the business?<br>Characteristics of the industry?<br>What are the selection mechanisms to recruit or employ family members?<br>How to terminate a family member?<br>Who do family business members report to?<br>What are the requirements to enter the family business?<br>When will non-family business managers be considered? |
| | Governance structure of business | Definition of jobs and responsibilities?<br>What are the interconnections between positions in the business?<br>Business has a board of directors with external independents? |
| | Organizational culture | Organizational values<br>Organizational mission<br>Satisfaction, involvement, commitment of employees<br>Decision-making procedures used in business<br>Quality of communication processes<br>Norms and policies |
| | Business strategy | What is the future of the business?<br>Business vision.<br>Availability of resources for the future?<br>There are payment and evaluation systems linked to strategy performance?<br>There is a successor identified?<br>There is a succession plan for top management positions? |

**Notes:** This table provides ideas for sample areas of consideration. The areas and questions presented in the table are based on the work on family protocols that is cited in the manuscript

**Table I.**

or misunderstandings in this area. During the formulation stage the goal is to achieve the participation of family members in the decision-making process of the policies that will guide the expectations and responsibilities of the relations between the family and the business. This stage culminates with the development of the protocol document.

The third stage of the family protocol development is the implementation of the protocol. The purpose of the third stage is to help the family understand how to use the protocol during decision making. In this stage, researchers/practitioners will work with the family to help them implement and use the protocol and make changes in the protocol if there is a need for them. Viewing the development of a family protocol as a process has two important implications. First, the idea of process implies that protocols are dynamic. For us this means that protocols should be able to adapt over time when the needs of the family or the composition of the family change. Second, the idea of process also suggests the need to monitor and evaluate the relevance and usefulness of the family protocol over time. Building on these two ideas, we propose that the two final stages of protocol development are monitoring and evaluation. During the monitoring stage the family uses the protocol in their day-to-day interactions with the business and evaluate how it works in decision-making situations. As time passes and new generations get involved in the business this monitoring stage will become very informative when making decisions about the family protocol and when it needs to change. The final stage of the protocol process is the evaluation. During the evaluation stage the family assesses what works and what needs to change so the family protocol can be redeveloped or changed.

## Discussion

Family business is an interesting area that allows the integration of formal research and theory with practice to combine practice driven and academic knowledge to help family firms (Gersick and Feliu, 2014). This paper combines academic and practitioner knowledge with three goals in mind: first, to define and summarize work exploring the concept of the family protocol; second, to explain how and why the family protocol can help family members diminishing the conflicts they have pertaining the relationship between family membership and business benefits; and third, to articulate a process model with important considerations when developing a family protocol. Family protocols are important family governance practices. They help formalize the expectations and norms that family members have about their responsibilities in relation to the business and the rewards they can obtain from membership in the business. As we have discussed, formalizing these expectations can affect the psychological contracts that individuals create with other parties regarding the promises that are made as part of an interaction and what is offered in exchange for this interaction (Rousseau and Tijoriwala, 1998). Psychological contracts are based on the expectations that parties have about their interactions. Although psychological contracts are not verbally negotiated, each party holds the other responsible based on the expectations they believe are agreed upon by each participant in the interaction. Psychological contracts are formed based on what is communicated, and when parties do not have explicit information they will interpret the information they obtained based on their own point of view. In the family business context, this implies that when families do not have an explicit articulation of the responsibilities, demands, and rewards of family membership in relationship to business, they will create unreal psychological contracts with the family firm and the family. These unrealistic expectations can affect feelings of fairness, the levels of conflict between family members in relations to the business, and can diminish the commitment of family stakeholders toward the family firm. This lower commitment, in turn, can affect the potential for continuity of the firm. Although there is no empirical research that has explored the relationship between family protocol and different family processes, recent work from Suess (2014) presents a conceptual model linking family protocols and other family governance mechanisms with family characteristics such as open communication, trust, social interaction, and goal alignment. She argues that previous work in the family business suggest that family governance will enhance the dynamics of the family and strengthen the bonds between family members. By doing so, a family protocol can create spaces in which the family can manage situations that are a result of the interaction between the family and business subsystems of the firm.

Similar to Gersick and Feliu (2014), we also argue that family protocols represents one aspect of governance in the family firm. Gersick and Feliu argue that governance issues are related to the structural components of an organization that helps clarify rights and responsibilities of parties, and how control and oversight is going to be practiced. Based on this, we suggest that the family protocol is a governance tool centered in the family subsystem of a family business. Thus, this paper builds on previous work to better articulate and explain how protocols can assist in governing the family component of the family firm. Our paper complements previous work on the relational governance model of the firm (Berent-Braun and Uhlaner, 2012; Mustakallio *et al.*, 2002). In particular, our ideas explain why governing relational aspects of the family and the business is important to prevent misunderstanding between family members regarding their rights and responsibilities toward the firm.

The current paper uses principles from organizational justice and equity theory to explain the importance of articulating the rights and responsibilities that family members have to obtain rewards from their membership and contributions to the family business. Based on the different types of justice that individuals evaluate (i.e. procedural, distributive, and interactional), we argue that family protocols need to explicitly articulate the responsibilities of individuals and procedures that will be used to determine the rewards that are linked to family membership in relation to the business (i.e. issues related to procedural justice); how the distribution of these rewards will occur (i.e. issues related to distributive justice); and how this information will be communicated (i.e. issues related to informational justice). By including this information, the family protocol will explicitly state the rules that the family will follow, and this can help family members understand what to expect from their membership in the family and can have the potential for diminishing perceptions of inequality between family members. Thus, this paper expands the work of Van der Heyden *et al.* (2005) regarding the importance of justice in interfamily relationships related to the family firm.

We use equity theory to explain why family protocols can help diminish conflict between family members. Equity theory (Adams, 1963) suggests that conflict between individuals can arise when they perceive that other parties are receiving more benefits for fewer inputs. This theory indicates that individuals always search for fair or equitable relationships in their interaction (i.e. those in which similar inputs will obtain similar outputs). Thus, when a person perceives an inequality in comparison to others, they feel dissonance (i.e. inconsistency between actions and rewards) and will be motivated to lower these feelings. To avoid dissonance, individuals change their behavior by either increasing or decreasing their inputs based on their comparison other to obtain more rewards. When applied to the family business context, we argue that the family protocol provides all family members with a better understanding of the rewards that will be obtained based on the type of inputs that person has in the family, the ownership, and the business. By explicitly articulating these expectations, the family protocol can prepare family members to evaluate the benefits they can and should obtain from the firm in comparison to other family members based on their inputs. By enabling this comparison, the family protocol has the potential of being one of the tools that can diminish conflict between family members in relation to the family firm. In this sense, this paper provides a theoretical foundation for the exploration of the effects of family protocol in family and interpersonal dynamics related to the family firm.

The final goal of this paper was to present a process model for developing the family protocols and to highlight some considerations in the development of these protocols. Building on previous articles that view the family protocol as a process (Gallo and Tomaselli, 2006; Tapies and Ceja, 2011), we suggest that there are four important when developing a family protocol. First, practitioners and researchers view the family protocol as a process and not merely a document. This process view acknowledges the differences between family firms and the possibility of change events in the context. Second, researchers and practitioners need to have great knowledge about the firm to be able to develop a family protocol. Given that the protocol should be a tool to help the family and their interaction with the firm, having knowledge about the particular firm allows for a better explanation of the areas in which the family needs some explicit norms to manage their relationships. Third, practitioners and academics should consider the dynamic nature of the family firm. That is, composition of the family can change, or the environment in which the family firm operates can also change and can affect the protocol. And, fourth, academics and practitioners should monitor and evaluate the protocol to make sure that it changes as the demands of the family and the firm change. By doing this, the family protocol can turn into a powerful tool for the management of the relationship between family membership and the benefits that can be obtained from the family firm. Based on these four considerations we presented a process model for the development of family protocols.

## Future research

As discussed earlier in the paper, very little research has explored family protocol and the effects that it has for the family and for the business (Gersick and Feliu, 2014). We believe that this paper provides a conceptual foundation that can be used to develop academic and practitioner-oriented research about protocols in family firms. There are at least four areas in which we view potential for future research. The first area relates to the use of family protocols in family enterprises. We believe that we need to explore what type of family firms are likely to use family protocols and why family businesses use or fail to use this governance tool. Having this understanding can provide some insight about the characteristics of families that are likely to use the protocol and how they use this protocol. This information can complement the work of Berent-Braun and Uhlaner (2012), Suáre and Santana-Martín (2004), and Mustakallio *et al.* (2002) who found that there are certain types of families that are more likely to use family governance tools. This knowledge can help us better understand the family dynamics and characteristics that are conducive to the development of a protocol, or that can be affected by a protocol. Data to explore this idea can be obtained different ways. For example, information about the use of family protocols can be obtained from surveys of family businesses and their characteristics to assess whether they use protocols and how they use them. We could also rely on census data from family business to look at their governance practices and determine the likelihood to use the family protocol and the characteristics of these family firms. Finally, we could also use interview data to obtain a more comprehensive understanding of whether family firms use protocols and how they use them.

A second area that we need to further explore relates to how family firms develop their protocols? It would be interesting to understand the amount and type of firms that hire external consultants to help them with the family protocol and how process consultants development of the protocol. Understanding this can help us comprehend the involvement that family members have in the development of these types of family governance structures. Given that family governance mechanisms are not legally required in organizations, each family is likely to create a different type of protocol based on the requirements and needs of the family (Suess, 2014). This has two important implications for entrepreneurial families. First, the idea of “one size fits all” does not apply to the family protocol. Thus, families need to know that there should be a process to create the protocol. Second, family firms need family members to buy into the ideas articulated in the protocol, thus they will need the participation of family member in the development of the protocol if they want this process to be successful. Given this, we need to better understand how protocols are developed. Interviewing or surveying consultants about their practices when developing family protocols or surveying/interviewing family firms about what they did when creating the protocol could obtain this information.

A third interesting area for research about family protocols that would be exploring where protocols are most often used and why? For example, Brenes *et al.* (2011) found that family protocols are very popular concept in Latin America. Gersick and Feliu (2014) also suggest that in the USA and in parts of Europe the family protocols are often seen as a nice to have accessory or a first-choice governance option. Understanding the differences in the use of the protocol could highlight the cultural characteristics of family businesses around the world. This information could also be useful to understand the generalizability of what we currently know about family processes and the relationship of family and business subsystems. Thus, it would be interesting to continue to build on this work to better understand in what locations family firms are more likely to use family protocols and why this is the case.

The final area that we believe would be important to explore is the effects that using a family protocol can have for family dynamics and the harmony of family relations. As we mentioned at the beginning of the paper, the use of family protocols could influence the level and type of intra-family conflict that owning families deal with. Recent conceptual work of Suess (2014) supports the positive relationship between family governance mechanisms and family processes and dynamics. This work suggests that family protocols can affect family dynamics and increase family harmony and trust between members, which in turn could diminish conflict situations, and play a role in the commitment and engagement of family members in the family firm. At the same time, it would be useful to understand if families that implement and use a family protocol would benefit in the performance of the firm. Previous work has found a positive relationship between family governance practices and performance, but has not explored which family governance mechanisms are the ones that help performance. Thus, it would be useful to conduct surveys or interviews to explore the effects that family protocols can have for the relationship between the family and for the firm.

## Conclusion

This paper integrates academic and practitioner literature about family protocols to provide a theoretical foundation for future exploration of the family protocol as a governance tool in family enterprises. We hope that it sparks future research in the area so we can better understand how family protocols can help prevent intra-family conflict about the family firm, and the effects of using family protocols in the commitment of family members and the continuity of the family firm.

### Notes

1. Family protocols are also referred to as family constitution, family code of conduct, or family statement. In this paper we use the term protocol to describe any of these mechanisms.
2. Gersick and Feliu (2014) define family as including all individuals that are related by blood, adoption, and/or marriage, and have a psychological sense of enterprise ownership.

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