Bean Counter or Strategist?

Differences in the Role of the CFO in Family and Non-Family Businesses

Abstract: Practice-oriented publications have recently suggested a movement of the Chief Financial Officer's (CFO) role towards a more strategic role. In family businesses, the CFO position is often the first into which a non-family manager is hired. However, the role of the non-family CFO in family businesses is underresearched. Hence, this paper uses previous findings as well as social role theory, agency theory, stewardship theory, and the resource-based view to investigate the role of the non-family CFO in family businesses compared to that in non-family businesses. Nine propositions are developed, which suggest not only a more traditional role for CFOs in family businesses, but also fewer monitoring efforts for the CFO. The paper concludes with avenues for further research and concrete future research questions.

Keywords: Family Business, Chief Financial Officer (CFO), Non-Family Management, Social Role Theory

1. Introduction

When family businesses (FBs) grow older and larger, they typically employ more non-family managers (Chua et al., 2003; Dekker et al., 2010). Non-family management becomes necessary if there are simply not enough family members available to fill the vacant management positions or if younger generations are not willing or able to take over managerial responsibilities (Klein, 2000; Blumentritt et al., 2007; Block & Jaskiewicz, 2007; Chua et al., 2009; Caselli & Di Giuli, 2010). Despite the growing need for non-family managers, their unique roles within FBs are considered to be underresearched (Klein & Bell, 2007).

The first management position handed over to non-family managers is often the position of the Chief Financial Officer (CFO) (Filbeck & Lee, 2000), because in many cases, controlling families can no longer provide the knowledge and skills from their ranks that are necessary for the CFO position (Caselli & Di Giuli, 2010; Lutz et al., 2010). Furthermore, a non-family CFO usually safeguards the long-term development of an FB by reducing its exposure to financial risk (Lutz et al., 2010), which is an approach that is usually very important for controlling families (Hiebl, 2013). However, a non-family CFO also faces FB-specific challenges. On one hand, a non-family manager is required to not only continue the business, but also professionalize it (Dyer, 1989; Le Breton-Miller et al., 2004; Chua et al., 2009; Dekker et al., 2010). On the other hand, when driving professionalization, the non-family CFO needs to consider the specific requirements of financial information systems in FBs (Gallo & Vilaseca, 1996; Filbeck & Lee, 2000; Salvato & Moores, 2010; Hiebl, 2012). Moreover, ever-present family influence may pose an additional challenge, especially to professional managers with a non-family business (NFB) background (Kets de Vries, 1993; Habbershon & Williams, 1999; Kellermanns, 2005; Lindow et al., 2010). Such managers are usually used to decision making based on logic and rational argumentation, whereas in FBs, controlling families can make intuitive decisions and enforce their ideas without extensive discussion (Dyer, 1989). Thus, when first joining an FB, a non-family CFO might feel restricted in his or her decision-making power and may need to learn to cope with the strong family influence.

Independent from the situation in family businesses, research on the role of the CFO has gained popularity both in practice-oriented literature and in the academic literature in recent years (Bremer, 2010; Lüdtke, 2010). One heavily discussed question is whether the CFO still takes responsibility for traditional financial management tasks, such as financial accounting and management accounting, or whether he or she has moved into a more strategic role and co-leads the strategic course of the firm (Zorn, 2004; Chua, 2007; Baxter & Chua, 2008). For FBs, the general role of the non-family CFO and the potential role change of the position have not yet been analyzed in detail. Moreover, decisive drivers for the CFO's more important roles, such as increased shareholder value orientation and short-termism (Zorn, 2004) might not be as present in FBs as in NFBs (Mahto et al., 2010; Lumpkin & Brigham, 2011), which could limit the CFO's more strategic role in FBs. Controlling families were also found to place more emphasis on cultural compatibility of non-family management personnel with firm owners than NFBs (Blumentritt et al., 2007; Klein & Bell, 2007). Thus, in FBs, there might also be other requirements in place when hiring CFOs than in NFBs.

Against the backdrop of the relative lack of research and the FB-specific antecedents likely affecting the CFO's role, this paper seeks to examine the questions of how the CFO's role differs in FBs and NFBs, and which role the CFO generally plays in FBs. At the very outset, I shall make clear that the paper focuses on the comparison of a non-family CFO's role in FBs and the CFO's role in NFBs. This means that only CFOs are considered who are not major owners of their respective firms. Thus, family member CFOs are not considered in this paper, as they obtain a dual role as both (major) owners and managers. Such role dualism is usually not observable in NFBs, and therefore directly comparing CFOs in FBs and NFBs would be biased by the family membership of the CFO in FBs. Therefore, when referring to the "CFO in FBs" in this paper, only non-family CFOs are considered.

In order to analyze the characteristics of the role of the CFO in FBs, especially compared to the role of the CFO in NFBs, social role theory is used as the theoretical background to study the CFO's qualifications and capacity. The resource-based view (RBV) of the firm is employed to assess a CFO's contribution to FB resources, and agency and stewardship theory are applied to investigate the CFO's relationship to the family and the Chief Executive Officer (CEO).

This paper primarily contributes to the literature by generating nine propositions about the special qualifications needed for CFOs and the different capacities granted to CFOs in FBs versus NFBs, which could motivate additional research on this important role in FBs. The conclusion drawn in this paper on the non-family CFO's role in FBs also makes clear that an effective integration of non-family CFOs might also be an important driver for explaining performance differences between FBs. Moreover, the paper suggests avenues for potential further research, offers an array of potentially rewarding research questions, and discusses which contextual factors could be examined to increase our understanding of the CFO's role in FBs and the differences in this role between FBs and NFBs.

Furthermore, the paper should also be relevant in practice. For instance, based on the propositions suggested in this paper, CFOs currently working for NFBs could estimate how their roles might change when moving to an FB. In addition, FB owners[1] currently employing a CFO could compare the role of their current CFOs to that depicted in this paper. Importantly, this comparison may provide suggestions on how to further increase their CFOs' contributions to the development of the business or how to reform the relationship between the controlling family and the CFO.

2. The CFO in family businesses

2.1 CFO Research

In general, the CFO position has enjoyed a substantial gain in importance and prestige in recent decades. In the early 1970s, few U.S. companies had installed a CFO position. However, by the end of the 20th century, more than 80% of the largest U.S. corporations had created such a position (Zorn, 2004). Furthermore, CFOs are increasingly viewed as second-in-command, subordinate only to the CEO (Zorn, 2004). At first, practice-oriented publications excelled at investigating the CFO position. In particular, advisory companies showed strong interest in the CFO position and published a large number of studies that mainly suggested a radical change in the CFO's role from mere bean counter to business strategist (Bremer, 2010; Lüdtke, 2010). Academia has followed suit, and publications focusing on the CFO position have multiplied in recent years. However, the majority of these publications has not addressed the CFO's role, but rather the CFO's educational and career background (Collier & Wilson, 1994; Baker & Phillips, 1999), the CFO's influence

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[1] The terms "FB owners" and "controlling family" are used similarly in this paper to describe members of the controlling family that may also exert decisive influence on management decisions, such as hiring an external CFO, even if not holding shares in the family business themselves (e.g., by influencing their spouses, see Chua et al., 1999).

on accounting practices (Dowdell & Krishnan, 2004; Aier et al., 2005; Gibbins et al., 2007; Jiang et al., 2010; Chava & Purnanandam, 2010; Li et al., 2010; Barua et al., 2010), CFO turnover (Mian, 2001, Geiger & North, 2006; Arthaud-Day et al., 2006; Bremer, 2010; Lüdtke, 2010), or the impact of tighter or looser accounting standards and accounting bodies on the CFO role (Zorn, 2004; Ewert & Wagenhofer, 2005).

Three English-language and two German-language publications were identified that have addressed the CFO's role in a more detailed manner. Zorn (2004) investigated the historical development of the CFO's role in the USA and found that the CFO position has undergone a major gain in importance. The two main drivers of this development were a regulatory change in earnings reporting requirements in 1979 and the rise of shareholder value orientation in the 1980s and 1990s. Zorn (2004) did not explicitly comment on the FB or NFB status of the 429 firms examined. However, as his focus was on Fortune 500 firms, it can be assumed that his findings apply to NFBs rather than FBs, because the share of FBs usually decreases as firm size grows (Shanker & Astrachan, 1996; Klein, 2000; IFERA, 2003). The high importance of the CFO position was also validated in the study by Niedermayr-Kruse & Pfneissl (2007), who analyzed the CFO position based on a survey of the CFOs from the 500 largest Austrian firms. They found that the CFOs surveyed viewed themselves as operating in a rather traditional CFO role, and only assumed additional, more strategic tasks when under external pressure. Because this study focused on the largest corporations in German-speaking countries, the share of FBs among large firms[2] was found to be less than 30% and declined further as firm size increased (Klein, 2000; Haas, 2010), it can be assumed that the study's results predominantly apply to NFBs.

Using a single-case study methodology, Baxter & Chua (2008) presented the introduction of a new CFO in a large Australian retail organization and the first 14 months in the new position. Among other insights, they found that accounting and finance skills were essential for the new CFO to gain acceptance and emerge into a more strategic role. Similar to the study described above, this study did not explain the FB/NFB status of the case firms. However, again, because no indication was given about the existence of a family owner or manager, the case study firm can be expected to be an NFB.

[2] To the best of the author's knowledge, no data are available on the share of FBs among the largest corporations in Austria. However, due to similar economies (Haas, 2010), the data available for Germany (Klein, 2000) may serve as a viable proxy for Austria as well.

The 42 CFOs working for German mid-sized companies who were interviewed by Becker et al. (2011) concluded that they increasingly work on strategic topics. However, their main areas of responsibility are still rather traditional tasks, such as financial accounting, treasury, and management accounting, which suggest that the CFOs' self-perceptions and actual responsibilities do not entirely match. The results of this study could be especially relevant to the research question examined in the present paper, because there is a significant overlap between mid-sized companies and FBs in Germany (Becker et al., 2011). For instance, Klein (2000) estimates that more than 60% of German firms having up to 500 employees can be considered as FBs. Indeed, roughly 60% of the 42 CFOs interviewed by Becker et al. (2011) work in firms that have a significant level of family influence. However, that study draws no comparisons between family-controlled companies and non-family-controlled companies, and only findings on the entire sample are discussed. Furthermore, it does not discuss the issue of the CFO's relation to the firm's owners, which would be of special interest when assessing the differences in the non-family CFO's role between FBs and NFBs.

A rather traditional CFO role can also be concluded from the studies of Bremer (2010) and Lüdtke (2010), who analyzed the job descriptions of the 86 CFOs working for the largest publicly traded German firms in 1998 and in 2007. On one hand, they found that more firms had installed a CFO position near the top of the corporate hierarchy in 2007 compared to 1998. However, on the other hand, the findings of Bremer and Lüdtke also suggested that the CFO still mainly has responsibility for traditional tasks and only limited responsibility for strategic tasks. These studies also focused on a country's largest corporations, which implies that its results mainly apply to the CFO role in NFBs.

In some studies on the changing role of management accountants, CFOs have also served as interview partners or survey participants to discuss changes in their roles (Granlund & Lukka, 1998; Malmi et al., 2001; Vaivio & Kokko, 2006; Järvenpää, 2007). However, with the exception of the study by Malmi et al. (2001), the results of these studies do not explicitly examine aspects of the CFO's role. Malmi et al. (2001) found that CFOs value strategic planning and strategy implementation more than finance or accounting managers. Other than accounting personnel, CFOs also assume strategy work and risk management to grow in importance. However, Malmi et al. (2001) concluded that a radical transformation in the role of the management accountant or CFO has not yet occurred.

Interestingly, the roles of lower positions in a firm's financial management hierarchy, such as controller or management accountant, have received far more attention in previous research studies. In many studies (e.g., Granlund & Lukka, 1998; Malmi et al., 2001; Yazdifar & Tsamenyi, 2005; Vaivio & Kokko, 2006; Järvenpää, 2007; Byrne & Pierce, 2007), similar questions to those asked in CFO role research have been examined, particularly the change in the role of management accountants from bean counters to business partners. Most results indicate that management accountants have experienced a certain degree of role change towards increased business orientation, but that the main area of management accountants' workloads still deals with basic accounting systems (Granlund & Lukka, 1998; Järvenpää, 2007). Hence, large parts of the management accountant role could still be depicted as acting according the bean counter cliché. Nevertheless, there is evidence that a transition in the management accountant's role actually has occurred (or still occurs) from bean counting to a business partner-type of operation, but that this transition is unlikely to lead to a situation where management accountants are completely freed from tasks associated with basic accounting systems (Granlund & Lukka, 1998; Malmi et al., 2001; Byrne & Pierce, 2007). Rather, it seems likely that a modern interpretation of bean counting serves as the backbone of the advanced management accountant's role set (Vaivio & Kokko, 2006; Byrne & Pierce, 2007). However, these studies on the changing role of management accountants have provided limited insight into FBs and have mainly focused on very large companies. Considering the relevance of research on the changing role of management accountants for the CFO role, it might also be expected that CFOs will indeed take on additional and more strategic tasks, but a key part of their roles will always deal with traditional financial management responsibilities.

In summary, the current literature on the CFO's role and the role of management accountants has mostly focused on larger companies. With the exception of Becker et al. (2011), none of these studies have investigated family influence or the FB status of the firms examined. Thus, it can be concluded that the findings of these studies mainly hold true for NFBs, namely that the CFO's role has evolved to a considerable degree towards managing more strategic tasks. However, the core of the CFO's role is still composed of traditional financial management tasks.

2.2 Research on CFOs in FBs

In the field of FB research, a number of studies have investigated in detail the peculiarities of non-family managers in the CEO positions in FBs (e.g., McConaughy, 2000; Blumentritt et al., 2007; Lin & Hu, 2007). Regarding the role of the CFO in FBs, five studies were identified that have explicitly addressed certain aspects of the CFO's role in FBs. Gallo & Vilaseca (1998) analyzed the differences between family CFOs and non-family CFOs based on a survey of large Spanish FBs. They found that in larger and older FBs, non-family managers fill the CFO position. However, they found no correlation between the CFO's family status and the performance of the FB. According to their findings, family members in the CFO position are more powerful and have a higher influence on strategic decisions than do non-family CFOs. Gallo & Vilaseca (1998) concluded that FBs lack efficient control mechanisms for non-family CFOs and, therefore, delegate less decision-making power to non-family CFOs.

Filbeck & Lee (2000) identified a positive correlation between the existence of non-family CFOs and modern capital budgeting techniques based on a survey of U.S. FBs. Another finding suggested that FBs generally use less modern financial management techniques compared to NFBs. Furthermore, they also found that if FBs employ a non-family manager for the first time, then the CFO position is the position most likely to be chosen.

To analyze the impact of management team composition on firm performance, Caselli & Di Giuli (2010) surveyed small- and medium-sized Italian firms. Other than Gallo & Vilaseca (1998), who focused on large companies, Caselli & Di Giuli (2010) found a significant positive correlation between the existence of a non-family CFO and firm performance. This could indicate that the existence of a non-family CFO only has a positive impact on FB performance in small and medium-sized companies, and not in large companies. Caselli & Di Giuli (2010) also found that the executive board composition most likely to foster FB performance consists of a family CEO and a non-family CFO, thus highlighting the important relationship between the CFO and a family CEO. Furthermore, according to their findings, regardless of the FB's generation, a non-family CFO always has a positive impact on firm performance.

Based on a survey of small- and medium-sized German FBs, Lutz et al. (2010) analyzed the relationship between the controlling family's goals and employment of a non-family CFO and between the existence of a non-family CFO and modern financial management techniques. They found that the family goals of independence, control, and enterprise value growth are negatively correlated with the existence of a non-family CFO, whereas the goal of low financial risk has a positive influence on the employment of a non-family CFO. Thus, when trying to keep up the family's undivided decision-making power (goals of independence and control) or when trying to increase the FB's value (goal of enterprise value growth), controlling families tend to avoid non-family CFOs, whereas when aiming at lowering the financial risk the FB is exposed to, controlling families rather turn to a non-family CFO (Lutz & Schraml, 2012; Lutz et al., 2010). Moreover, Lutz et al. (2010) found that the existence of a non-family CFO clearly leads to a professionalization of financial management techniques within an FB. FBs with non-family CFOs use strategic planning more frequently, show a higher number of bank relations, and are more focused on improving bank ratings. However, FBs with non-family CFOs on average showed a lower bank rating, which supports the notion that FBs in financial distress turn to non-family CFOs.

In an exploratory study, Gurd & Thomas (2012) present survey evidence collected from 103 non-family CFOs working for small or medium-sized Australian FBs. They found that in a lot of cases, the controlling family does not fully leverage the potentially fruitful contributions and knowledge of the CFO, but for critical financial issues, rather turned to an external financial advisor. Nevertheless, they also point out that for maintaining smooth operation of the finance functions, family CEOs should rely heavily on the CFOs' knowledge unless family CEOs have significant finance knowledge themselves. Gurd & Thomas (2012) theorize that the relatively low estimation of the CFO by the controlling families might also be due to controlling families opting to hire rather unobtrusive CFOs, who have to focus on the proper operation of the FB's finance functions, but not on the FB's strategic course. The authors therefore suggest that in order to enable a more proactive CFO role, controlling families might lower the "level of secrecy of financial information and be more proactive in seeking the advice of the CFO" (Gurd & Thomas, 2012, p. 302).

In summary, previous research has elaborated on some aspects of the CFO role in FBs and underscored the important role that the CFO might play to mitigate financial distress and to build a performance-enhancing management team together with a family CEO. However, a comprehensive picture of the roles and responsibilities of CFOs in FBs has not yet evolved.

Furthermore, some findings seem to be contradictory, and most importantly, to date, research has only focused on within-FB comparisons (e.g., between family CFOs and non-family CFOs), but has not drawn comparisons with the CFO's role in NFBs.

3. Theoretical Framework

3.1 Social Role Theory

The term "role" was initially taken from the context of the theater. As early as 1599, Shakespeare drew comparisons between acting and society in his play *As You Like It*. According to the play, all men and women are mere players who play many different parts in their lifetimes (Newman & Newman, 2009). Linton (1936) later introduced role theory to modern science. According to him, the term "role" comprises all cultural patterns associated with a position in society. Merton (1957) added that a person does not have only one role in society, but rather an entire role set, of which a certain role is chosen, depending on the situation and the counterpart the person faces.

In an FB or an NFB, the CFO – just like every person bearing a role – receives various expectations from different firm-internal and firm-external role senders (Katz & Kahn, 1978). These role senders are the persons with whom the CFO works or interacts. In reference to Merton (1957), the sum of their expectations for the CFO's behavior forms the CFO's role set. The receiver of these role expectations – in the case of this paper, the CFO – perceives these expectations (at least partially in case of disruptions) and may act accordingly or not. Role expectations also comprise the specified tasks and duties the role bearer is expected to perform. However, role is not only the sum of the tasks and duties, as role expectations may conflict. Thus, the role bearer has to sort out which expectations to follow and consequently which tasks and duties to perform (Rizzo et al., 1970). How the role bearer (the CFO) finally acts is summarized under the term "role behavior" (Wickham & Parker, 2007).

For the purpose of this paper, a rather wide interpretation of the term "social role" is used, because the CFO not only fills a position in an organization and receives expectations, but also has the power and often is requested to drive organizational change. Hence, a passive understanding of "role" only focusing on the expectations from the CFO's environment would underestimate the flexibility of a CFO in "playing" his or her role. Thus, aside from the expectations of owners, other managers, and employees, the CFO may add his or her personal view and interpretation of what a CFO role should be.

As Katz & Kahn (1978) further add to the role concept, the relationship between role sender and role receiver is moderated by attributes of the role receiver and interpersonal factors. Therefore, for the purpose of this paper, the CFO's qualifications and the CFO's granted capacity are interpreted as important antecedents of the CFO's role (Toby, 1953; Turner, 1990; Hardimon, 1994; Turner, 2001). The term "qualifications" is used to summarize the skills a person has acquired, which cannot be retracted by anyone other than the holder. The role bearer needs these skills to successfully play his or her role (Turner, 1990; Yazdifar & Tsamenyi, 2005). To analyze the CFO's qualifications, this paper examines the education and career path (i.e., practical experience) that qualifies him or her for the CFO role. "Capacity" in the context of this paper means the rights, obligations, and expectations that are granted to a role bearer, but which can also be retracted (Hardimon, 1994; Kurz & Bartram, 2002). For instance, a CFO may be awarded certain operational and strategic power (rights), may have to lead the financial management team and secure the financial health of the firm (obligation), or may be expected to act as a business advisor to the CEO (expectations). Taken together, these aspects form the CFO's granted capacity. However, the role bearer's capacity depends on the situation he or she acts in. For example, in company A, a CFO may have been granted the sole power to decide on the selection of the treasurer, but when the CFO moves to company B, he or she may not be granted this power.

Role behavior is thus a product of qualifications and capacity, and reflects person-organization fit, which is crucial for a successful relationship between the role bearer and the organization granting the role (Chatman, 1989; Rothbard et al., 2005; Klein & Bell, 2007). This means that the role that a certain CFO plays may change in different settings (e.g., FB vs. NFB) or based on different CFO qualifications (e.g., high tenure vs. low tenure). In the development of propositions on the CFO's differing role in an FB and NFBs presented in section 4, both the CFO's qualifications and capacity as well as the relationship between CFO and major internal stakeholders (owners/family, CEO) are examined.

3.2 Agency Theory, Stewardship Theory, and the RBV

For proposition generation and the discussion of the CFO’s differing role in FBs and NFBs, this paper refers to agency theory, stewardship theory, and the RBV. Agency theory (e.g., Ross, 1973; Jensen & Meckling, 1976; Eisenhardt, 1989) addresses the relationship between a principal and an agent: the principal delegates tasks to the agent, whereas the agent can in turn use the principal's resources to fulfill his or her given tasks. Conflicts in this relationship can arise if the principal and agent's targets do not match or if the principal has to make great efforts to control the agent's actions (Fama & Jensen, 1983). For instance, the agent might use the principal's resources to follow his or her individual goals, rather than the principal's goals (“type I agency conflict”). Thus, costs may be incurred or actions may be necessary to align the principal and agent's targets. These costs and other disadvantages, which are created through the principal–agent relationship, are referred to as "agency costs." Another conflict (referred to as “type II agency conflict”) may arise between two or more principals: if there is one large shareholder and one or several smaller shareholders, then the larger shareholder might try to extract benefits at the expense of the smaller shareholders (Anderson & Reeb, 2003; Villalonga & Amit, 2006; Sacristán-Navarro et al., 2011).

In management research, agency theory has often been used to analyze conflicts between business owners (principals) and management (agents) or between larger and smaller shareholders in order to suggest ways to overcome these conflicts and reduce agency costs. Some scholars have argued that owing to the personal union of business owners and managers in FBs, agency costs are lower compared to those in NFBs (Ang et al., 2000; Anderson & Reeb, 2003; Le Breton-Miller & Miller, 2006, 2009; Songini & Gnan, 2013). However, there is also evidence that in owner-managed FBs, agency costs arise because of suboptimal management practices by family members (Gallo & Vilaseca, 1998; Schulze et al., 2001, 2003a), and that these managers also behave as self-serving agents in several situations (Chrisman et al., 2007; Davis et al., 2010). Moreover, type II agency conflicts may also accrue in FBs if a controlling family tries to damage minority shareholders. In particular, controlling families can be incentivized to act accordingly because – other than non-family majority shareholders (e.g., banks, funds, and widely held corporations) – their family’s personal wealth might benefit from expropriating smaller shareholders (Villalonga & Amit, 2006; Sacristán-Navarro et al., 2011).

When analyzing FBs, stewardship theory is another approach often used to describe principal–agent relationships (Davis et al., 1997; Corbetta & Salvato, 2004; Songini, 2006). Stewardship theory sees managers as stewards who are motivated intrinsically and who pursue the organization's goals over self-interests (Davis et al., 1997). For instance, family members act as stewards by putting aside personal interests for the sake of the FB (Le Breton-Miller & Miller, 2009; Eddleston et al., 2010). However, stewardship theory might also apply when there are non-family managers in an FB: if both owners and managers were to follow the stewardship model, then target conflicts might be minimized and organizational performance maximized (Vallejo, 2009; Davis et al., 2010). Therefore, agency costs in the FB would decrease significantly (Corbetta & Salvato, 2004).

The RBV has mainly been used in strategic management research to answer the question of why some firms perform better than others (Sirmon & Hitt, 2003). In general, the RBV rests on the assumption that the comparative advantages of a firm are based on the resources available to it and the management of these resources (Penrose, 1959, Wernerfeldt, 1984, Barney, 1991; Mahoney, 1995). FBs usually have a specific set of resources, which, on one hand, builds strategic assets but, on the other hand, imposes special challenges (Sirmon & Hitt, 2003; Kellermanns, 2005; Eddleston et al., 2008; Davis et al., 2010). For instance, FBs have more patient shareholders, pronounced survival ability, and more flexible organizational structures. However, they tend to struggle to attract highly qualified employees and need to overcome FB-specific hurdles, such as business succession planning (Habbershon & Williams, 1999; Neubauer, 2003; Zellweger, 2007). By combining all of the internal resources of an FB that exist because of family involvement, previous research has also created the concept of “familiness” (Habbershon & Williams, 1999; Zellweger et al., 2010; Memili et al., 2010). Familiness serves as a unique resource that may explain performance differences between FBs and NFBs (Chrisman et al., 2005; Tokarczyk et al., 2007; Rutherford et al., 2008).

3.3 Research Framework for analyzing the non-family CFO’s Role in FBs and NFBs

As pointed out in section 3.1, this paper uses a wide interpretation of social role theory based on qualifications and capacity. Examining both the CFO’s qualifications and their capacity granted in the FB is crucial, because only by matching suitable skills to work environment can a non-family manager unfold his or her potential to positively influence the FB (Lin &

Hu, 2007; Klein & Bell, 2007; Dawson, 2012). Regarding qualifications, the CFO's education and career path are crucial to his or her role (Baker & Phillips, 1999; Becker et al., 2011) and these factors may be valuable resources to both the CFO and the firm (Habbershon & Williams, 1999; Sirmon & Hitt, 2003). In general, Wright et al. (2001) showed that employees' relationships and behaviors are influenced by people management practices, such as staffing and the human capital pool, which comprises skills, knowledge, and other abilities. Both people management practices and the human capital pool may serve as sources of competitive advantages in the sense of the RBV (Wright et al., 2001; Klein & Bell, 2007; Coff & Kryscinski, 2011; Dawson, 2012). Thus, the RBV is mainly used to discuss the differences in the CFO's necessary qualifications in FBs and NFBs, because FBs and NFBs attach different value to such resources. For instance, as discussed in section 4.2, the resource of a university education might be more valuable to an NFB than it is to an FB.

=== Insert Figure 1 about here ===

Concerning the CFO's capacity within the firm, this study examines the CFO's relationship with the firm owners and the CEO as well as his or her functions and other areas of responsibility. The CFO takes on an agent role in the relationship with firm owners and the CEO (Caselli & Di Giuli, 2010; Lutz et al., 2010; Gurd & Thomas, 2012). For FBs, previous research on the role of non-family managers (e.g., Klein & Bell, 2007; Blumentritt et al., 2007; Lin & Hu, 2007) has not created a clear picture of whether non-family managers act according to agency or stewardship theory. Thus, both agency and stewardship theory are used as competing theories to analyze these relationships. The research framework used in the present study is presented in Figure 1.

4. Proposition Development

4.1 Contextual factors and model

Figure 2 presents a summary model of this paper's analysis of the CFO's differing role in FBs and NFBs, which was generated using the research framework presented in section 3.3.

The model consists of two basic parts: contextual factors for the CFO's differing role in FBs and NFBs, and the nine propositions on aspects of how this differing role might be designed. In this subsection, the relevance of the contextual factors for the model as well as how these contextual factors collude with the theoretical framework presented above is discussed. How these contextual factors interrelate with the developed propositions is then presented in the following subsections.

As the model shows, the integration of firm owners in management, which also determines firm type (FB vs. NFB), builds the point of origin for the differing role of the CFO in FBs and NFBs. The close integration of the controlling family in the management of the FB and thus specific governance structures of FBs in comparison to NFBs, were found to also result in FBs' specific resource needs. So from an RBV perspective, FBs show different resource needs than NFBs for achieving a competitive advantage, which also applies to human capital resources, and therefore requirements for managers such as the CFO (Habbershon & Williams, 1999; Sirmon & Hitt, 2003). The branch of the model on the right side shows this influence of the integration of a controlling family on resource selection in FBs. The higher importance of cultural compatibility between owners and managers in FBs should lead to the FBs' preference for non-family CFOs with former work experience in FBs (proposition 3) and a lower estimation of the non-family CFO's formal education, such as a university degree (proposition 1). Moreover, FBs' higher estimation of management tenure should also apply for CFO applicants (proposition 2). Note that propositions 1 and 2 are interdependent, as FBs are expected to value higher management tenure even over the CFO holding a university degree.

=== Insert Figure 2 about here ===

An important difference between FBs and NFBs is the (non-)integration of the owners in management. As depicted above, for FBs, the personal union of owners and managers should results in lower agency costs and a more stewardship-like culture compared to the situation in NFBs. To maintain this kind of culture, controlling families are rather reluctant to include non-family managers into their management teams, as this would separate ownership and control, and thus the same level of mutual trust and stewardship could not be expected between owners and manager anymore (Lutz et al., 2010). As shown in the middle branch of Figure 2, controlling families often pursue the goal of undivided decision-making power in “their” firm. To keep up the family’s undivided decision making power, the owners in FBs may also try to keep non-family managers out of important management positions, such as the CFO position, as these managers could also claim decision-making power themselves (Voordeckers et al., 2007). In NFBs, the situation is quite different, as there are *per se* primarily non-owners in important management positions, and thus considerations to keep up the owners’ decision making power in management positions are not at all or at least less present. Therefore in contrast to NFB owners, the owners of FBs may also want to maintain all managerial power in the FB, despite lacking sufficient deep finance know-how. Controlling families might (as long as possible) keep out external experts, such as CFOs. However, as discussed in section 4.4, if FBs finally need to hire a CFO, they can be expected to give the CFO a higher total compensation than a family member CFO without keeping up with the quantitative compensation in comparable NFBs (proposition 4a).

The family’s goal to maintain the decision-making power within the ranks of the family and the expert know-how of the CFO added to the FB’s resource set should also lead to the non-family CFO mainly providing advisement to a family CEO without holding strategic decision-making power themselves (proposition 6), and thus generally performing a more traditional CFO role than in NFBs (proposition 7). Moreover, due to this limitation of the non-family CFO’s power within the firm, it can also be expected that the non-family CFO’s level of responsibility should be lower than that in NFBs (proposition 8). This proposition is also influenced by the lower importance of short-term economic goals in FBs compared to NFBs; as a consequence of the longer-term orientation of FBs, the non-family CFO’s department should have fewer requirements to report and drive short-term developments, and thus should manage to perform its tasks with less staff than in comparable NFBs. The lower importance of short-term goals is also associated with a stewardship-like culture in FBs, as the controlling family usually strives to keep the firm alive and pass it on to succeeding generations. This leads to higher valuation of the firm’s success over the individual benefits of single family members, which is typical for a stewardship-oriented culture. This culture is also intertwined with mutual reciprocal trust. In addition, the non-family CFO should perceive this higher level of trust, resulting in less rigid control mechanisms for the non-family CFO compared to NFBs (proposition 5).

Although these contextual factors rooted in the used theoretical framework should be important drivers of the CFO's differing role in FBs and NFBs, there may be various other contextual factors also affecting the role. For instance, the CFO role and the role differences between FBs and NFBs may be moderated by the stock-market listing of the respective firms, by various different degrees of family involvement in the firm (in ownership, management, and control), by the size of the firms under investigation, by the firms' life-cycle stages, by the overall strategy the firms follow, by the family status of key management positions such as the CEO's, or by country, legal and other institutional factors. Wherever these additional contextual factors are most likely to potentially influence the propositions developed in the following sections, this will be stated together with the propositions. However, as the construct of "social role" is very complex, other researchers might think of and find additional relevant factors. Thus, the list of contextual factors cannot be regarded as exhaustive and offers the possibility for more research on this topic.

4.2 Education

Previous research on CFO education has found that without an academic education, reaching a CFO position is highly unlikely. In all of the studies analyzed both in the U.S. and Europe, the percentage of CFOs holding at least one university degree was higher than 85% (Baker & Phillips, 1999; Schäffer et al., 2008; Becker et al., 2011; Niedermayr-Kruse & Pfneissl, 2007). By far, most CFOs have a business major (Collier & Wilson, 1994; Baker & Phillips, 1999; Schäffer et al., 2008; Becker et al., 2011; Niedermayr-Kruse & Pfneissl, 2007), but especially in Germany, an engineering background also seems to fit very well with a CFO career (Schäffer et al., 2008; Becker et al., 2011). Until recently, a PhD had also been a common degree among corporate professionals in continental Europe. Hence, in the studies focusing on CFOs in Germany, more CFOs held a PhD than a professional degree, such as an MBA. However, the number of PhD holders among CFOs is declining (Schäffer et al., 2008; Becker et al., 2011). Indeed, the current situation in the U.S. may indicate future education patterns for CFOs in Europe, because the PhD holders among CFOs are clearly outnumbered by MBA holders there (Collier & Wilson, 1994; Baker & Phillips, 1999).

Considering the predominance of university degree holders among CFOs both in the U.S. and Europe, one might conclude that even in FBs, almost every CFO is required to hold a degree. Education is also regarded as a main component of an individual's human capital, and thus the aggregated human resources of a firm rely significantly on the education levels of its employees (Coff & Kryscinski, 2011). As discussed in section 2.1, previous CFO literature has mainly focused on NFBs, and therefore the results cannot be directly applied to FBs. Empirical evidence based on the RBV suggests that FBs, especially those that are owner-managed, place less importance on the resource of formal training, such as a university education (Fiegener et al., 1996). Highly qualified and academically trained managers might also avoid working in FBs because of the limited professional growth prospects and limitations on wealth transfer (Covin, 1994; Sirmon & Hitt, 2003; Barnett & Kellermanns, 2006). Moreover, patriarchal family CEOs are likely to decide on resource allocation completely independently (Schulze et al., 2003a; Kellermanns, 2005) and may not appreciate being challenged by potentially better educated subordinates, such as a university-trained CFO.

When assessing an applicant for a CFO position, FB owners might also rather focus on cultural compatibility, and thus the person-organization fit between the CFO and FB. This fit is usually crucial to FB owners, and thus is FB-specific compared to NFBs (Blumentritt et al., 2007; Klein & Bell, 2007; Lin & Hu, 2007) Therefore, person-organization fit could even be of higher importance to FBs than the formal education of the CFO. This might also lead to the situation that internal CFO candidates, who have not enjoyed university education, but who have long served an FB, may be considered for the CFO position despite showing less formal education than competitors. In this sense, an FB-specific stewardship culture might also play an important role. When FB owners have known the CFO candidate without a university education for a long period of time due to his or her long tenure in the FB, they might already have gained substantial trust in the candidate. Thus, in order to not risk the trust-based and stewardship-like FB culture, they might rather promote a less educated CFO candidate in order to not risk this kind of culture, which might be the case when hiring a better educated, but not yet known CFO candidate.

Moreover, FBs might value a greater degree of work experience than NFBs, as they generally tend to value higher tenure and experience in management positions (Jorissen et al., 2005; Tsai et al., 2006). Therefore, compared to NFBs, FBs should also be more likely to give in on the CFO’s formal education requirements when being able to hire a more tenured manager as CFO. All of these reasons should make the resource of formal CFO education, such as a university education, less important for FBs compared to NFBs. Thus:

Proposition 1: CFOs in FBs hold a university degree less often compared to CFOs in NFBs.

Owing to the large share of FBs among all firms in an economy (IFERA, 2003), FBs are rather heterogeneous, and therefore depending on size, family influence, stock exchange quotation, and other criteria, a large array of different FB types exist (e.g., Westhead & Howorth, 2007; Sharma & Nordqvist, 2007; Dekker et al., 2010; Garcia-Castro & Casasola, 2011). Although there should be a general tendency in FBs to support proposition 1, the difference between FBs and NFBs can be expected to diminish in larger FBs, which have a lower level of family influence and tend to be publicly listed. As FBs grow in size, family influence is often reduced because of the dilution of one family's equity stake and the integration of more non-family directors and managers. Thus, FBs more and more resemble NFBs (Gersick et al., 1997; Kellermanns, 2005; Hiebl et al., 2013), which also affects the recruitment policies of senior management teams from FBs. Very large FBs often account for a considerable share of listed firms (e.g., Anderson & Reeb, 2003; Sacristán-Navarro et al., 2011). As for listed firms, research has documented the importance of a formal education for members of the financial management teams (e.g., Baker & Phillips, 1999; Schäffer et al., 2008; Vafeas, 2009), and it can thus be expected that listed FBs differ little from NFBs regarding their valuations of university training in the sense of proposition 1.

Another trend in management education might moderate the relationship stated in proposition 1. In developed countries, the share of university graduates among age groups has substantially increased in the recent decades (e.g., European Commission, 2009). Schäffer et al. (2008) also present data that confirms this development for CFOs. They show that the 97% of the 2008 CFOs had enjoyed a university education, while only 83% of the 1998 CFOs were university graduates. Thus, although FBs place less emphasis on formal education, they may also only hire university graduates today when hiring for their finance and accounting functions, who may later develop into CFO candidates. Thus, when testing proposition 1, it seems necessary to control for CFO age. Among older CFOs, in accordance with proposition 1, less university graduates can be expected in FBs compared to NFBs, but this relationship is likely to diminish or disappear for younger CFOs.

4.3 Career Path

Ample experience in finance functions is the rule rather than the exception among CFOs. More than half of the CFOs of firms in the leading German stock index (DAX) began their careers in the finance sphere, and they have worked for two-thirds of their tenures within traditional CFO functions, such as financial accounting, treasury, or management accounting (Schäffer et al., 2008). In continental Europe, the most common stepping stone into the CFO position is the position of controller (Niedermayr-Kruse & Pfneissl, 2007; Schäffer et al., 2008), whereas in the U.S., it is the position of treasurer (Baker & Phillips, 1999).

For CFOs in FBs, (informal) expertise in the field of accounting and finance as well as extended work experience can be theorized to be a more valuable resource than in NFBs and also more valuable than a formal education. This assumption is based on the finding that controlling families only turn to non-family managers when specific knowledge and experience is unavailable from within the ranks of the family or when the FB experiences severe financial risk (Klein & Bell, 2007; Caselli & Di Giuli, 2010; Lutz et al., 2010), thus seeking specific finance and accounting knowledge and not more general managerial skills. In these cases, it seems likely that the family expects to find this necessary experience in more tenured CFO candidates who have mainly made their career in finance and accounting functions. In addition, Gurd & Thomas (2012) stress the importance of extensive accounting experience for CFOs in FBs, because controlling families see the "technical excellence" (Gurd & Thomas, 2012, p. 299) as one of the most important features of CFO candidates.

Furthermore, in general, FBs seem to place greater emphasis on the "management tenure" resource than NFBs, as existing studies show that in FBs, managers' tenure is significantly longer than in NFBs (Jorissen et al., 2005; Tsai et al., 2006). This notion could be rooted in the clan-like governance structures that place high value on seniority (Johannisson & Huse, 2000). Hence, CFOs in FBs should also be required to have longer working tenures in accounting and financial management compared to those in NFBs. Thus:

> **Proposition 2:** When assessing CFO candidates, FBs attach more importance to tenures in accounting and financial management than do NFBs.

The corporate culture in FBs is heavily intertwined with family influence (Dyer, 1989; Habbershon & Williams, 1999). In particular, professional managers who have worked for their entire careers in NFBs might underestimate the family's influence when considering a

CFO position in an FB. In other words, previous experience in FBs should serve as a useful resource to both the CFO applicant and the FB, because integration into the FB might be smoother if a professional manager knows how to deal with controlling families (Klein & Bell, 2007). For instance, CFO applicants with former FB experience might better know how to deal with the family's decision making power or how to efficiently communicate and influence family members, who usually show higher emotional bonding with "their" firm than do managers of NFBs (Astrachan & Jaskiewicz, 2008). In general, the cultural compatibility between the controlling family and the CFO is seen as the most important prerequisite for a successful collaboration (Blumentritt et al., 2007; Hall & Nordqvist, 2008). A controlling family can be expected to estimate higher cultural compatibility if the non-family CFO applicant has already worked in (similar) FB settings. Thus:

> **Proposition 3:** In contrast to NFBs, FBs prefer to hire CFOs that have some work experience in other FBs rather than CFOs that have pure NFB work experience.

Due to the diversity of FBs described above, previous FB work experience should be especially useful to a CFO if that previous experience has been gained in a similar setting to the one for which he or she is applying. For instance, if a CFO has gained work experience in an owner-managed, medium-sized private FB, then this experience might be of only limited use to a large listed FB that is entirely managed by non-family managers. Nevertheless, having experienced the behavior and influence practiced by a controlling family should still be a worthwhile resource (Klein & Bell, 2007). Hence, when empirically testing the relationship stated in proposition 3, important contextual factors should be controlled for, such as size, level of family influence, and stock exchange listing.

4.4 Relationship to Owners/Family

When a controlling family makes the initial decision to hire a non-family manager, a reduction in the family's influence on the FB usually occurs (Astrachan et al., 2002; Sonfield & Lussier, 2009). To ensure that the non-family manager acts in line with the family's goals, agency theory suggests that mechanisms are installed to align the interests of the principal (controlling family) and the agent (non-family manager) (Fama & Jensen, 1983; Schulze et al., 2003b; Dekker et al., 2010). In connection with this practice, controlling families were found to often use incentive compensation and monitoring to control non-family managers' actions (Chua et al., 2009; Yang, 2010; Block, 2011).[3]

Concerning incentive compensation as a mechanism of goal alignment, the controlling family will try to establish a combination of fixed and incentive compensation for the CFO that, on one hand, sufficiently reflects the family's goals and, on the other hand, adequately motivates the CFO (Chua et al., 2009). Although linking the CFO's compensation to the family's goals might seem to be an easy task, in practice it demonstrates the complexity of the FB system, because in FBs, economic as well as non-economic goals usually play an important role. Non-economic goals might include business succession to younger generations or providing jobs to family members (Chrisman et al., 2005; Gedajlovic et al., 2004; Chua et al., 2009; Mahto et al., 2010; Zellweger et al., in press). The CFO's compensation in an FB will thus be more related to non-economic goals than it would be in an NFB. Furthermore, CFOs in FBs can expect a different compensation package compared to those in NFBs. Thus, the share of incentive compensation should be lower than it is for those in NFBs, because there is a limited likelihood that a CFO will receive stock or stock options in an FB, as controlling families tend to not let their equity stakes become diluted (Klein & Bell, 2007). In turn, this usually leads to lower total compensation for CFOs in FBs compared to those in NFBs (Anderson & Reeb, 2003). Thus:

> **Proposition 4a:** Assuming similar CFO qualifications, the CFO will receive lower total compensation in an FB than in a comparable NFB.

As the term "comparable" included in proposition 4 indicates, it seems important to test this proposition in comparable FBs and NFBs. This should mean that empirical tests should control for firm size, stock-market listing, and industry characteristics, as these variables may considerably influence the compensation that chief executives, such as the CFO, receive (Finkelstein & Hambrick, 1988; Core et al., 1999; Murphy, 1999).

When examining the family status of the CFO, a non-family CFO should expect higher compensation than should family member CFOs due to higher job-loss risk, because he or

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[3] Besides incentive compensation and monitoring, other market-based and bureaucratic agency cost control mechanisms, such as managerial shareholdings, the use of debt financing, introduction of boards, or the introduction of management control systems could also potentially be used by controlling families (Songini & Gnan, 2013).

she is not protected by family membership (McConaughy, 2000; Gomez-Mejia et al., 2003). Moreover, as discussed in section 4.3, controlling families turn to CFOs when they cannot provide the skills needed for this position from within the family. This dependence on the integration of financial management skills from outside the FB should also make them willing to pay a non-family CFO more than a family CFO. Thus:

> **Proposition 4b:** A non-family CFO will receive higher total compensation than a family member CFO.

When employing non-family managers, the controlling family usually creates extended management control mechanisms compared to a situation of only family members in the executive board, because it cannot expect (at least at the beginning of their collaboration) the non-family CFO to act in line with the stewardship model as family members might. Hence, the non-family CFO will initially not receive the same level of trust as would a family CFO (Block & Jaskiewicz, 2007). Thus, management control mechanisms may be installed in the form of supervisory boards, advisory boards, or family boards and formalized reporting duties for non-family managers (Blumentritt et al., 2007; Dekker et al., 2010; Brenes et al., 2011).

However, especially in FBs, a non-family manager does not automatically act as a self-serving agent, but may rather adopt a stewardship-like corporate orientation and act as a steward, thus strengthening the controlling family's trust in him or her (Davis et al., 1997; Corbetta & Salvato, 2004; Vallejo, 2009; Davis et al., 2010). In particular, it seems to be essential for the CFO to gain the controlling family's trust, because he or she is responsible for the sensitive financial conduct of the FB, and the family is more likely to hire a CFO when experiencing external pressures caused by financial risk (Lutz et al., 2010; Lutz & Schraml, 2012).

However, at least at the beginning of the collaboration, the family will continue trying to influence the financial sphere of the FB (Gedajlovic et al., 2004). From the controlling family's standpoint, previous research has shown that it should avoid implementing overly rigid control mechanisms, and rather act as an advisor to the CFO (Blumentritt et al., 2007; Lin & Hu, 2007; Block & Jaskiewicz, 2007) in order to foster the professionalization of the financial management systems of the FB (Sonfield & Lussier, 2009; Lutz et al., 2010). In addition, non-family directors can facilitate this development by adopting a supportive role (García Pérez de Lema & Duréndez, 2007; Brenes et al., 2011).

Reconsidering the assumed inducement of the CFO to act as a steward and the benefits for the FB if the controlling family also acts in line with stewardship theory, it can be assumed that in FBs, the CFO perceives a higher level of agency behavior from the controlling family than a family CFO would, but a lower level than in comparable NFBs. Such agency-like behavior would lead to increased monitoring efforts, and thus to increased usage of management control mechanisms, such as a higher frequency and intensity of formal reports, the introduction or use of tight budgets, cost centers, and cost controls (Kober et al., 2007; Quinn, 2011). Recent studies have already shown that as a tendency, FBs use such management control mechanisms to a lesser extent than do NFBs (García Pérez de Lema & Duréndez, 2007; Hiebl et al., 2012; Speckbacher & Wentges, 2012; Feldbauer-Durstmüller et al., 2012; Hiebl et al., 2013; Songini & Gnan, 2013). The authors of these studies also partly ascribe this finding to a stewardship-like culture in FBs, which limits the necessity of formal controls due to mutual trust between owners and managers of FBs. This should also affect the control mechanisms that CFOs perceive in FBs and lead to a generally lower level of efforts for monitoring the CFO in FBs compared to NFBs. As a consequence, if the controlling family trusts the CFO to act like a steward, then the FB performance could also benefit, because lower costs for monitoring and control should arise and the CFO can concentrate more on his or her role in financial management than on reporting to the family and justifying decisions (Blumentritt et al., 2007). Thus:

> **Proposition 5:** CFOs in FBs will be subject to less rigid control mechanisms compared to those in NFBs.

Admittedly, this proposition is rather general and should apply not only to the CFO, but also to most other non-family managers in FBs. Therefore, variegating this proposition depending on different corporate governance configurations (the existence of non-family directors or members of the management board) in FBs or control mechanisms (e.g., stock option-based incentive schemes and monitoring systems) would be useful for empirical research efforts in order to improve the applicability of research findings for concrete FB cases. For instance, empirical research might test this proposition by comparing the intensity and frequency by which CFOs have to report to the firm owners, depending on differing degrees of family influence. Moreover, the situation described in proposition 5 might be different if there is a type II agency conflict between the controlling family as the majority shareholder of the FB and a minority shareholder (Villalonga & Amit, 2006). Therefore, in order to ensure that a CFO acts in favor of the controlling family and to prevent him or her from treating all shareholders equally, the family might impose equally rigid or even more rigid control mechanisms compared to those in NFBs.

4.5 Relationship with the CEO

Initially, when examining the relationship between the CEO and the CFO, it is necessary to distinguish between a family CEO and a non-family CEO. Because this paper focuses on the differences in a CFO’s role in FBs and in NFBs, this section focuses on the relationship between the CFO and a family member CEO, which is a situation that is unique to FBs (Filbeck & Lee, 2000; Caselli & Di Giuli, 2010).

According to Caselli & Di Giuli (2010), the management team composition of family CEO and non-family CFO predicts superior FB performance. In this relationship, the family CEO can be expected to claim strategic decision-making power because he or she performs a double role as manager and owner (Barnett et al., 2009) and is not likely to deploy too much decision-making power to the CFO. In general, research has shown that even with the presence of non-family top management, the controlling family tries to dominate the decision-making power (Daily & Dollinger, 1993; Gedajlovic et al., 2004; Klein & Bell, 2007). This reluctance of the controlling family to delegate decision-making power might be due to a lack of trust when hiring non-family management personnel from outside the FB. A longer relationship and the development of trust may increase the share of decision-making power that the family CEO is willing to share with the CFO. However, even in FBs with a longer history of non-family management, the family usually upholds the primacy of (strategic) decision-making power (Gedajlovic et al., 2004; Klein & Bell, 2007).

Nevertheless, the family CEO had to have identified a need for professional, non-family management of the FB’s finances in order to hire a CFO. Hence, the family CEO is likely to use the CFO’s specific financial management knowledge for advice when making decisions, but maintains power of making the final decision in his or her hands. The results by Gurd & Thomas (2012) support this notion and already indicate that in FBs, the CFO is often deemed to play a role as finance and accounting expert, but not as being a tantamount sparring partner for the family CEO when it comes to strategic decisions. Nevertheless, Gurd

& Thomas (2012) also stress that FB owners significantly rely on the specific finance and accounting knowledge that the CFOs provide. Thus, when the family is still included in FB management in the form of a family CEO, the CFO may act as an advising steward for the long-term and financially successful development of the FB, but not as a member holding strategic decision-making power. Therefore:

> **Proposition 6:** In the FB executive board composition consisting of a family CEO and a non-family CFO, the latter mainly acts as a financial advisor to the family CEO, whereas the family CEO has strategic decision-making power.

4.6 Functions and Areas of Responsibility

Previous research that has not considered the effects of firm type (FB vs. NFB) has ascribed the CFO to a position that is second-in-command following the CEO (Zorn, 2004), and one that is strongly moving towards a role as a strategist and change agent (Vaivio & Kokko, 2006; Baxter & Chua, 2008; Lüdtke, 2010). However, the findings of Gallo & Vilaseca (1998) on the role of CFOs in FBs showed that a non-family CFO has a lower influence on strategic decisions and occupies a lower position in the organization compared to family CFOs. Because decisions on the strategic course of the FB are likely to influence its long-term survival, which is a main goal of many controlling families (Chrisman et al., 2005; Mahto et al., 2010), the family will only let the CFO participate in strategy formulation if it has built up a significant level of trust in the CFO. Thus, the findings of Gallo & Vilaseca (1998) can be interpreted as evidence that the family treats non-family managers as agents, in the sense that they do not delegate too much decision-making power to the non-family managers. Furthermore, CFOs are usually hired because of their specific knowledge of financial management (Lutz et al., 2010; Lutz & Schraml, 2012), and thus the controlling family is likely to want them to focus on finance rather than on strategic issues. This notion is also supported by the recent findings of Gurd & Thomas (2012). They show for an all-FB sample that FB owners predominantly let their salaried CFOs overlook core finance and accounting functions, but only to a significantly lower extent the strategic planning function. Gurd & Thomas (2012) also criticize that FB owners make too little usage of their CFOs' skills and thus call for a more intense integration of the CFO in functions outside the core finance and accounting functions.

Furthermore, the long-term orientation of FBs and the associated missing shortsighted shareholder value orientation (Chrisman, 2005; Gedajlovic et al., 2004; Chua et al., 2009; Lutz et al., 2010; Mahto et al., 2010) places the CFO in a traditional CFO role, because increased shareholder value orientation was what initially fostered the rise of the CFO position to a more strategic role (Zorn, 2004). The lower short-term shareholder value orientation in FBs should therefore also prevent the CFO from playing a more strategic role. In contrast, due to different and less stable governance and ownership structures, NFBs should show a higher reliance on short-term shareholder value creation (Anderson & Reeb, 2003). Thus, the antecedents for the CFO's generally more strategic role, such as shareholder value orientation (Zorn, 2004), can be expected to be prevalent in NFBs than in FBs. Thus:

> **Proposition 7:** Compared to those in NFBs, CFOs in FBs occupy a more traditional CFO role that is mainly focused on accounting and financial management rather than on strategic issues.

This proposition rests on the assumption that the controlling family sees the CFO as an agent and that they do not want to delegate too much decision-making power to the CFO. However, if a CFO serves an FB for a longer period of time, then it could be expected that mutual trust between the family and the CFO will be established, so that the family would increasingly include the CFO in setting the strategic course of the firm. Therefore, when empirically testing the comparison stated in proposition 7, it is important to control for the CFO's tenure in his or her current position. Furthermore, when analyzing the CFO's role behavior, further research might use the extant body of literature and research strategies used for investigating the roles of management accountants, as indicated in section 2.1. This could also provide a comparison of role behavior and role change of CFOs and management accountants.

Previous empirical findings on the responsibility of CFOs (Niedermayr-Kruse & Pfneissl, 2007; Bremer, 2010; Kunz, 2010; Becker et al., 2011) support the notion that the change in the CFO's role, which has been proposed by practice-oriented publications (Lüdtke, 2010), has not yet been fully reflected in his or her actual areas of responsibility. Thus, CFOs continue to mainly take responsibility for traditional finance tasks, such as financial management, financial accounting, and management accounting (Malmi et al., 2001; Niedermayr-Kruse & Pfneissl, 2007; Kunz, 2010).

Hence, CFOs in FBs can also be expected to focus on core financial management functions. However, compared to NFBs, the financial administration in FBs should have a lower level of formalization and a higher level of centralization (Daily & Dollinger, 1993; Gedajlovic et al., 2004; Dekker et al., 2010). Previous literature often explains this finding using stewardship theory: because there is a higher level of trust among managers and employees in FBs, there is a lower need for control mechanisms and formalized processes (Corbetta & Salvato, 2004; Jaskiewicz & Klein, 2007; Vallejo, 2009; Moog et al., 2011; Duller et al., 2011; Hiebl, 2012; Songini & Gnan, 2013). In terms of the CFO's area of responsibility in FBs, this is expected to be reflected in a lower use of management information systems, strategic planning instruments, and monitoring systems (García Pérez de Lema & Duréndez, 2007; Hiebl et al., 2012; Feldbauer-Durstmüller et al., 2012; Hiebl et al., 2013). In light of professionalization, the CFO will be requested to improve or install the aforementioned systems (Gnan & Songini, 2003; Songini, 2006; Lutz et al., 2010). These systems might also help the family control the CFO (Gnan & Songini, 2003; García Pérez de Lema & Duréndez, 2007), and the CFO may rely on formalized information to justify his or her decisions (Gedajlovic et al., 2004).

However, even if the CFO successfully promotes the introduction of such systems, family influence will also remain a driving force, and as long as the family is sufficiently involved in the FB, a specific FB culture will remain (Gedajlovic et al., 2004). This culture is likely to show strong signs of stewardship (Corbetta & Salvato, 2004; Vallejo, 2009), which limits the need for formalized control mechanisms and finance employees, who would perform these control mechanisms. Thus, due to this lower usage of management information, planning, and monitoring systems, a lower need for specialized staff in these areas should also arise, including staff that would reside in the CFO's area of responsibility. Thus, the lower usage of these systems in NFBs can be expected to prevent the CFO's area of responsibility in FBs for not growing as large as it would in NFBs (e.g., measured by the overhead cost ratio) because of mutual trust. Again, this notion is supported by the long-term orientation of FBs and lower importance of short-term economic goals (Chrisman et al., 2005; Lutz et al., 2010; Mahto et al., 2010), which would also be measured and controlled by the CFO's subordinates. However, a lower importance of such short-term goals in FBs compared to NFBs also lowers the need for specialized staff taking care of measuring and controlling these goals, again resulting in less staff needed in the CFO's area of responsibility in FBs compared to NFBs. Thus:

Proposition 8: In FBs, the CFO's area of responsibility is smaller than is the CFO's area of responsibility in NFBs.

5. Conclusion and Avenues for Further Research

There are important reasons to investigate the CFO's specific role in an FB. First, the CFO is often the first non-family manager employed by an FB (Filbeck & Lee, 2000). Second, CFOs face special challenges in FBs compared to the challenges in NFBs (Gallo & Vilaseca, 1996; Salvato & Moores, 2010; Lutz et al., 2010; Hiebl, 2012; Lutz & Schraml, 2012; Gurd & Thomas, 2012). For instance, CFOs might be surprised by the centralization of decision-making power in FBs, which often lies in the hands of the controlling family and in turn might limit the implementation of organizational changes that a CFO may assess as critical to the FB's development. Moreover, the CFO might also become involved in (financial) conflicts, which originate in the controlling family but that also affect the CFO's area of responsibility. Third, as a consequence of such challenges and as discussed in this paper, CFOs can be expected to play a different role in FBs than they might in NFBs.

This paper suggests why and how the CFO's role in an FB differs from the CFO's role in an NFB. For CFOs in FBs, the resources of previous work experience in other FBs and the tacit knowledge of financial management techniques should be more important than formal training, such as a university education. In the principal–agent relationship between the controlling family and the CFO, control mechanisms are likely to be introduced, but owing to the stewardship culture in FBs, the CFO should perceive less agency treatment in FBs, such as intensive and frequent formal monitoring, than he or she might in NFBs. However, the CFO should also expect lower total compensation than he or she might receive in NFBs because of the lower level of total incentive compensation as a result of the lower availability of stock-(option)-based incentive compensation in FBs. Regarding collaboration with a family CEO, the CFO is likely to play the role of a financial advisor to the decision-making CEO. Owing to the lower need for formalization in FBs and less focus on short-term economic performance, the CFO's level of responsibility is likely to be lower than that in NFBs, and he or she is likely to occupy a rather more traditional CFO role that mainly focuses on core finance functions. Therefore, metaphorically, the CFO in an FB will act more as a bean counter than as a strategist.

The theoretical analysis of the CFO's role in FBs imposes important conclusions for practice and theory: using the propositions in this paper based on theory and previous research, CFOs who currently work for NFBs and who consider working for FBs for the first time should obtain a general picture of how they may play a different role if they decide to move. FB owners could also learn about certain unexplored aspects of the CFO's role that could be incorporated into their corporate governance. For instance, they might make arrangements to prevent their CFOs from influencing the basis of incentive compensation. As described in this paper, advisory firms have shown considerable activity in researching the role of the CFO. Considering the importance of FBs in many economies (IFERA, 2003), these firms should integrate family influence into their research on CFOs in order to improve the applicability of their findings to FBs.

This paper delivers three main contributions to theory. First, the paper develops nine propositions and a model on the different role a CFO plays in FBs and NFBs, which may motivate further empirical investigation of the CFO in FBs. Second, this paper has discussed the peculiarities of the role of the CFO in FBs, which provides both challenges and opportunities for FBs. Additional studies of the CFO's role in FBs compared to NFBs might therefore also lead to a better understanding of performance differences between FBs and NFBs as well as among the group of FBs. If a controlling family manages the integration of a CFO well, then this should have an important impact on performance. In this regard, Caselli & Di Giuli (2010) have already indicated that the proper collaboration between the controlling family and the CFO positively impacts FB performance. Third, with respect to general CFO research, this paper points out the importance of studying the CFO's role in dependency of the organizational setting in which the CFO operates. This paper has focused on the comparison of CFOs in FBs and NFBs, indicating that the often-postulated role change and increasing importance of CFOs might not apply to the organizational structure of FBs to the same extent, which dominate (at least in terms of quantity) the landscape of firms in most industrialized countries.

The next logical step would be to test the empirical significance of the propositions in this paper. However, as a limitation, it must be stated that these propositions were generated based on simplifying assumptions incorporated into the RBV as well as agency and stewardship theories and related previous research. These stylized theories must be interpreted with care and cannot necessarily be taken at face value when exploring the diversity of real-life FBs. Analyzing the CFO's role through the lens of social role theory constitutes a useful framework to *describe* it. However, it comes with the limitation that the social role is a complex construct, and thus "if/then" relationships may not directly be drawn. Therefore, it is difficult to evaluate which qualification or capacity shows the strongest influence on the CFO's role, because the entire role aggregate can hardly be operationalized, and therefore generalizations are difficult. Nevertheless, research of certain observable aspects of the CFO's role described in this paper, such as integration in strategic planning, decision-making power, the size of the CFO's area of responsibility, and the frequency of formal reporting to the owners, could provide deeper insight into the CFO's role.

In consideration of these limitations, it cannot be expected that all of the presented propositions based on social role theory fit the large amount of existing FB types (e.g., Westhead & Howorth, 2007; Garcia-Castro & Casasola, 2011). Rather, the propositions in this paper should be viewed as an impetus for further research on the important role of CFOs in FBs. Clearly, for concrete research projects, a variation of these propositions might be useful, depending on the different situational or organizational context factors that influence the states of the FBs investigated. As indicated in section 4.1, such context factors could include – but are certainly not limited to – different levels of family influence in FBs, a change to the FB's strategic course (e.g., expansion into new markets/products, internationalization, and mergers & acquisitions), the FB's life-cycle stage, the existence of non-family directors or CEOs, the prevalence of agency or stewardship culture in the FB, the non-family CFO's role in situations of financial distress, and situations where type II agency conflicts exist. Research questions could include the following:

- How does the CFO's role change when family influence is gradually reduced in an FB (e.g., through the increased integration of non-family management or the dilution of the family's equity stake)? Are FBs that experience a lower level of family influence more likely to hire external CFOs?

- Does embarking on a new strategic course affect the CFO's role? Does the CFO's role differ depending on the strategic positioning of the FB (e.g., as a cost leader or differentiator)? Do FBs that pursue a certain strategic course prefer to hire non-family CFOs?

- Does the CFO’s role differ along the FB’s life cycle? Does the role of the CFO differ in FBs and NFBs at similar life-cycle stages? Are FBs at a certain life-cycle stage more likely to hire an external CFO compared to those in other life-cycle stages?

- How does the existence of non-family members on the supervisory or management board affect the CFO’s role? Are FBs that have a high share of non-family members on the board more likely to hire a non-family CFO instead of a family member?

- Are there observable differences in the role of the CFO depending on whether an agency-like or a stewardship-like culture prevails in the FB? [Despite agency and stewardship culture being complex constructs, Davis et al. (2010) demonstrated an attempt to operationalize these types of corporate cultures.]

- Are FBs in financial distress more likely to hire non-family CFOs? Does the CFO’s role change if an FB experiences financial distress? How can a CFO help overcome financial distress in an FB?

- Does the role of the CFO differ if type II agency conflicts exist between a controlling family and a minority shareholder? Does the existence of an external CFO decrease type II agency conflicts in the sense that he or she professionalizes and formalizes control mechanisms and thereby hinders expropriation by the controlling family?

To increase our understanding of the formal and informal relationships between the CFO and the controlling family, qualitative research methods might be especially suitable to answer the above-stated research questions and further demonstrate the aspects of the interrelation between the CFO, family, and FB. Research designs based on extended case studies or qualitative interviews should be particularly promising, as they could also bring forward potentially overlooked or surprising interrelations (Creswell, 2009). As the CFO’s capacity is strongly influenced by his or her relationship with the family and the CEO, it should also be rewarding to not only include the subjective view of the CFO on his or her role in the research design, but also the family’s and CEO’s view on the CFO’s role.

Moreover, it should also be valuable to make use of additional theoretical perspectives to study the role of CFOs in FBs. For instance, as the introduction of an external CFO to an FB may be regarded as one step towards professionalization, researchers could draw on other theories that have been used to investigate the professionalization of FBs, such as company growth theory or organizational control theories (Songini, 2006). For instance, because the CFO position may often be the first to be staffed with a non-family member (Filbeck & Lee, 2000), this might be an important milestone or even turning point in the development and professionalization of an FB and could be an as yet underestimated event in FB development. Similarly, by taking the perspective after the initial introduction of the CFO to the FB, an upper echelons approach (Hambrick & Mason, 1984) could be used to study the outcomes of the integration of non-family CFOs in FBs.

Ultimately, it might be rewarding to analyze the effect of CFOs' integration in the FB management team and their qualifications and previous work experience on FB performance as well as their relationship with the controlling family. Due to the increasing importance of this research for older and larger FBs, an increased understanding of the impact of non-family managers' behavior as agents or stewards on organizational structure, level of formalization in the FB, and FB performance would generally be a worthwhile and important extension to current FB research.

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