The impact of divorce on the family business system in SMEs – patterns of coping strategies, commitment and ownership regulations

Kajsa Haag and Leona Achtenhagen*

Centre for Family Entrepreneurship and Ownership (CeFEO),
Jönköping International Business School,
Jönköping University,
P.O. Box 1026, 55111 Jönköping, Sweden
Email: kajsa.haag@ju.se
Email: acle@ju.se
*Corresponding author

Abstract: In this paper, we outline how the divorce of the main owner-manager of a family-owned SME impacts the family business system. Divorce not only represents a pronounced family failure, but it can also be a highly stressful condition for the family members involved. To date, the impact of divorce on family businesses remains understudied, despite rates of divorce as high as 50% in some countries. Drawing on almost a decade of experience with engaged scholarship at the interface between divorce and family businesses, we selected four typical case studies to illustrate different coping strategies and show how divorce can change the strategic outlook of the family business system in SMEs by altering the commitment of the owner family to maintain the business in the family as well as ensuring the business continuation per se. Moreover, we exemplify how legal ownership regulations can shape family businesses' strategic scope after divorce by impacting the financial situation. We integrate these findings into a model of family business system adaptation.

Keywords: family business system; divorce; disruption; ownership regulation; coping strategy; family systems theory; conflict; non-traditional family stages; commitment; motivational cost.

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Biographical notes: Kajsa Haag is an Associate Dean of Faculty and Assistant Professor at Jönköping International Business School (JIBS). She has been involved in research, education, and societal engagement in the Centre for Family Entrepreneurship and Ownership (CeFEO) at JIBS since its foundation in 2005. Her research interests include succession and strategic renewal of family firms, ownership dynamics, family enterprise foundations and the role of family firms in multi-stakeholder engagements for sustainable development.

Leona Achtenhagen is a Professor in Business Administration focused on Entrepreneurship and Business Development at Jönköping International Business School (JIBS). She is the Director of the Media, Management and Transformation Center (MMTC) and a member of the Centre for Family Entrepreneurship and Ownership (CeFEO) at JIBS. Her research interests include family business development as well as entrepreneurship in different types of context.

1 Introduction

A key characteristic of family business is the intertwined and reciprocal relationship between the family and the business they own, aiming for both a profitable business and family harmony (Sharma, 2004). Such harmony is not easy to achieve – in fact, studies point toward different types of conflict typical for family firms, such as clashes deriving from the overlap between family and business cultures, (e.g., Harvey and Evans, 1994) or during transgenerational succession processes, (e.g., De Massis et al., 2008; Ramadani et al., 2017a, 2017b). Here, family business studies tend to ascribe women a role as peacekeepers, tolerant wives, and responsible mothers with the aim to preserve or re-establish harmony in family and business (Ramadani et al., 2017b).

According to family systems theory, families consist of systems that interact with each other and with their environment (Jaskiewicz and Dyer, 2017). In family business, the family system and business system are integrated into a family business system where sustainability is a function of both business success and family functionality (Olson et al., 2003). The sustainability of any family business depends on its ability to respond and adapt to changes in either the family or the business component of the family business system when these changes occur (Olson et al., 2013).

The negative impact of personal conflicts on strategic decisions is established in entrepreneurship research (Zacca et al., 2017). One culmination of family conflict is the divorce of the owner-manager of a family firm. As most people regard marriage as a sacred bond that is presumed to last forever (Hopper, 2001), a divorce is a highly stressful event for the spouses as well as family members close to them (Booth and Amato, 1991). This stress, in addition to possible legal and financial distress, can have an enormous impact on the family business system: "It is impossible for anyone in a divorce situation, no matter where the fault may lie, not to view it as an important, elemental failure. It distorts an individual's judgment, and that often has a negative impact on the business" [Gilbert, (1989), p.41].

Though it is difficult to assess the exact number of family businesses impacted by the divorce of their owner-managers, it is evident that this phenomenon must be common, considering that in many countries, like the USA or Sweden, divorce rates are as high as 50%, (e.g., SCB, 2020)[1] and that the vast majority of companies all over the world are family firms (Astrachan, 2010; Dana and Ramadani, 2015). A rise in divorce rates is also in transitioning economies recognised as an obstacle for family business development (Aculai et al., 2015). Thus, family business scholars have called for more research accounting for negative family events, such as divorce and death, and other types of non-traditional family stages, because these can significantly impact the business over time (De Massis and Foss, 2018; Jaskiewicz and Dyer, 2017; Jaskiewicz et al., 2017). So far, research on the impact of divorce on the family business remains very rare, probably due to the difficulty of empirical access. The few existing publications have identified divorce as a threat to family business survival [Gersick et al., (1997), p.60] and note that it creates change within the family as an institution which, in turn, impacts business venturing (Aldrich and Cliff, 2003). Divorce is furthermore found to have a negative impact on firm performance (Galbraith, 2003). Also, the reverse influence, of family business stress impacting on divorce, has been identified by Sanchez-Ruiz et al. (2018). While management research on divorce in relation to family firms remains scarce, the topic has been considered in commercial law regarding tax planning (Long and Sissel, 2007) and ownership regulation (Sildon, 2006). The difficulties of legal regulation of family businesses, because of their need to reconcile both business law and family law, are stressed by Sund et al. (2010) as well as Haag and Sund (2016). Thus, some prior research exists pointing to the threat that divorce could pose for the family business, mainly in terms of its legal complications and financial repercussions. However, there is a lack of research focusing on how owner-managers cope with their divorce and how this relates to the family business system.

The aim of this paper is to outline the impact of divorce on the family business system to advance insights into this important, yet understudied topic. Empirically, this paper draws on almost a decade of engaged scholarship during which we studied the impact of divorce on family firms by co-producing knowledge with family lawyers, family business consultants and family business owners. Based on this experience, we selected four case studies of divorce of the owner-manager in family businesses in order to delineate typical patterns as observed in practice. The family businesses presented in this study are wholly family-owned and owner-managed, involving at least two generations with families displaying a high level of both involvement and commitment to the family business (Kotlar and De Massis, 2013). With our paper, we aim to contribute to the family business literature. We outline different coping strategies to deal with the divorce, which we then categorise along patterns of changes in the commitment of the family to maintaining the family business legacy as well as continuing the business per se. On the other side of the same coin, we identify how different legal contracts can impact financial repercussions on family firms in the case of divorce. Thereby, we show how the impact of divorce on the family business system does not terminate with the legal separation – in fact, it can take years for the family business system to cope with the resulting financial and psychological distress. By exploring the difficult issue of the impact of divorce on the family business system, we allude to calls of more carefully dealing with family issues in family business research (e.g., Combs et al., 2020; Dyer and Dyer, 2009; Garcia et al., 2019; James et al., 2012; Jaskiewicz et al., 2017; Jaskiewicz and Dyer, 2017; Litz et al., 2012).

The remainder of this paper is structured as follows: In the next section, we review relevant family business literature. The scarce existing research on family disruption mainly addresses the sudden death of the owner-manager (Brown, 1993), overthrowing the succession planning process (Handler, 1994). We attempt to identify prior research that can help us understand how family businesses might react to the divorce of the owner-manager. After introducing our method, we present vignettes of the four selected case studies. Thereafter, we discuss our findings anchored in the context of Sweden, which has a strong culture and legal system of protecting social security. We conclude the paper by integrating our findings into a model of family business system adaptation to divorce.

2 Literature

Family business research has long been dominated by a focus on internal aspects, such as the interplay between family relationships and the family firm, in order to theorise on what makes family firms unique (Gomez-Mejia et al., 2007; Habbershon et al., 2003; Ramadani and Hoy, 2015), though this interplay has not always been adequately connected to business outcomes (Sharma et al., 1997). Owner families tend to influence both the strategic vision and goals as well as the strategic management process (Ramadani and Hoy, 2015; Sharma et al., 1997). The competitive advantage of family firms, characterised, i.a. by superior customer loyalty from long-term relationships, is often explained by this family influence and depends on the family's continuity and commitment to the business (Frank et al., 2012).

A family business system can be viewed as a hybrid of family and business with two not always fully aligned value systems: While the family system might emphasise tradition, ideology, and altruism, the business system might be driven by economic rationality, profit logic and a higher level of self-interest (cf. Albert and Whetten, 1985). The integration of the two systems in the family business system gives rise to hybrid identities that complicate the organisational identification of its members through competing identity claims. In this family business system, decisions arise as compromises between contradictory family and business principles, which are often suboptimal from a traditional managerial perspective focusing on economic returns (Ramadani and Hoy, 2015). How much a member identifies with the family business system influences her level of commitment towards it (Foreman and Whetten, 2002). Ideally, the family members working in the business align their personal goals with those of the business otherwise a re-evaluation of their commitment is called for (Ramadani and Hoy, 2015). Commitment is, in turn, a multidimensional construct including both emotional/affective and behavioural/calculative components (Foreman and Whetten, 2002). The commitment needed for family business longevity over generations is based on family harmony which is i.a. disrupted by negative parental behaviours (Garcia et al., 2019). Divorce is a disruption to the family business system that can be expected to trigger re-identification leading also to an alteration of commitment. So far, the importance of the family system for the business is often neglected in family business research (Zachary, 2011; Kotlar and De Massis, 2013).

Because of the interplay of family and business in the family business system, goal setting is complex within family firms (Kotlar and De Massis, 2013). The goals of family firms vary in terms of their focus on family interests and business considerations (Singer and Donoho, 1992), and they can also fluctuate over time between these poles as the needs of the family and the firm change (Davis and Tagiuri, 1989). The owner family's influence on the family firm can be strong and the commitment to family-centred goals is likely to increase with increasing family involvement in the business (Kotlar and De Massis, 2013). Often family businesses want to achieve sustainable financial performance *and* family prosperity (Sharma, 2004). This dual goal is typically pursued with a long-term orientation, implying the risk of a myopic stance towards change, (e.g., Kets de Vries, 1993; Brundin et al., 2014), which might render adaptations of the family business system to a disruption difficult.

Family business managers draw on resources within both the family and the business system to deal with disruptions like divorce (cf. Brewton et al., 2010). How well they use these resources to protect the family business system is referred to as *family business resilience*. The resilience capacity is represented by the congruity among family members and varies with the state of the family/business interface. Here, *survivability capital*, as the pooled personal resources that family members are willing to loan, contribute or share for the benefit of the business, can play a crucial role (Sirmon and Hitt, 2003). High survivability capital enables more latitude in managing the impact of divorce, for example when buying out the shares of the divorced spouse.

Studies have furthermore pointed at the advantage of family businesses in managing extreme conditions such as financial crises (Amann and Jaussaud, 2012; Minichilli et al., 2016). One explanation is that family businesses have much to lose because of their socioemotional wealth and therefore are able to absorb exogenous shocks (Minichilli et al., 2016). Another strategic advantage of family business is the high trust they possess because of their family relationships (Steier, 2001). When the threat stems from inside the family firm, they might accept performance hazards in order to conceal internal problems and maintain positive public reputation even when this implies severe hardship on the family business system (Lohe and Calabrò, 2017).

Overall, there remains a lack of research on the impact of internal disruptions like divorce on the family business system. This impact directly influences its affective dimension. The divorce of the owner-manager represents a failure of the family system that could also lead to the failure of the business system. Through divorce, the superior trust between family members in the business is severely damaged and no longer represents a strategic advantage (cf. Steier, 2001). Also, the tendency to conceal internal problems might hinder the effective adaptation to the impact of divorce (cf. Lohe and Calabrò, 2017).

Family system failure has been studied in family psychology literature but is seldom linked to the family business context (Haag and Sund, 2016). Instead, entrepreneurship literature has paid attention to entrepreneurial failure, (e.g., Jenkins and McKelvie, 2016; García-Ramos et al., 2017; Ucbasaran et al., 2013) and the need for entrepreneurs to cope with stress (Eager et al., 2019) and manage both internal and external risks (Brustbauer and Peters, 2013). The personal response by failed entrepreneurs might have parallels to personal and family responses by owner-managers going through a divorce and the responses of connected family members. Ucbasaran et al. (2013) suggest two main psychological costs associated with entrepreneurs' experience of business failure: emotional and motivational costs. Emotional costs include pain, remorse, shame, humiliation, anger, guilt and blame as well as the fear of the unknown. Motivational costs can comprise a sense of helplessness leading to diminished self-esteem, but there can even be an opposite effect on motivation, namely increased motivation to compensate for self-defining shortcomings (Ucbasaran et al., 2013). While this prior research appears to confirm the assumption that divorce can cause a disruption of the family business system which is challenging to cope with, there is a clear need for a better understanding of this phenomenon. In the next section, we will introduce how we approached our empirical study that aims to contribute to filling this gap.

3 Method

3.1 Design and sampling

The findings presented in this paper derive from a larger, longitudinal project that was started almost one decade ago with the goal to develop knowledge on legal regulation and divorce in family business. That project involves scholars from business administration and law and follows a logic of engaged scholarship by co-producing knowledge with lawyers, family business consultants and family business owners (cf. Van de Ven, 2007). Over the years, the project has resulted in different datasets, comprising both quantitative and qualitative data. For the purpose of this paper, we follow a holistic-inductive qualitative design as proposed by Dana and Dana (2005) to learn directly from the research subjects within their natural environment, yielding a deep holistic understanding of the phenomenon. The holistic-inductive qualitative design requires methods allowing personal observations, document analysis and open-ended interviews for deep contextualised insights for which a case study approach is ideal (Dana and Dana, 2005). Thanks to our prolonged engagement from the larger project, we could select typical cases that we knew would illustrate different scenarios and provide good learning opportunities to study in-depth. We focus on *how* divorce affects the family business system and describe different coping strategies and typical patterns regarding the impact of divorce on family businesses. A case study approach is recommended when seeking an in-depth understanding of human experience embedded in its real-world context (Groenland and Dana, 2019).

The sensitive and context-bound nature of divorces and family businesses calls for a good understanding of the native setting, which is why the research is conducted in Sweden. Contextualisation is the key to any qualitative inquiry (Dana and Dana, 2005; Welter, 2011) and sets certain boundary conditions in terms of how and when our findings apply (Busse et al., 2017). Similar to the USA, Sweden is an individualistic and performance-oriented country that, like other western capitalist societies, is broadly formed by the institutions of the capital market, bureaucratic state, democracy, nuclear family, and Christian religion (Jaskiewicz and Dyer, 2017). It is to these types of settings our results primarily translate which is in line with the reasoning of Andersson et al. (2018), regarding their Swedish data on the gender distribution of top managers. Within this broad category, Sweden is categorised by a coordinated market economy with strong legal protection of individuals and high taxes (Andersson and Klepper, 2013), high equality and secularisation, as well as a low stigma of divorce (Andersson, 2016). This implies that the hardships found in our study are likely even harder in most other contexts.

Our case studies are based on active interviewing (Holstain and Gubrium, 2002) implying that meaning is created between the participants of the interview which necessitates a deep dialogue where the meaning-making process can unfold. Four owner-managers of family businesses were interviewed in-depth, narrating their lived experience of the impact of the divorce on themselves, their family and the family business. Our case study approach is grounded in interpretivism, (e.g., Stake, 1995). The interpretivist epistemology posits that knowledge is constructed "through the creation of concepts, models, and schemes to make sense of human experience and are continually interpreted and modified by the researcher" [De Massis and Kotlar, (2014), p.17]. The cases had been selected for the larger research project based on purposeful sampling

(Lincoln and Guba, 1985), identifying owner-managers of family firms with the legal right to the business who had been through divorce and were willing to openly speak about this experience, including their own affective and motivational responses. The challenge of gaining access for studying sensitive topics such as ours is common (cf. Zacharakis et al., 1999), but our long-term collaborations allowed us to gain this access as well as to develop a thorough understanding of the topic at hand in practice.

3.2 Data generation

All cases are from Sweden and thereby share the same legal and cultural setting, allowing for better comparability. The interviews that serve as the main empirical basis for this paper lasted between 1.5–3 hours. To generate both deep and holistic understanding, the interviewees were asked to tell their life stories in relation to the family business system. In order to allow for comparability between the narratives, an interview guide with open-ended questions served as a checklist towards the end of the interview to make sure that certain questions were covered. Prior to the interviews, the questions in the interview guide were discussed with three experienced divorce attorneys and their feedback incorporated, leading to an adjustment of some of the questions. This enabled us to cover both coping strategies and legal considerations. All interviews were conducted in person and were recorded and transcribed. They were complemented with extensive secondary materials, comprising media coverage (as identified through the online database Retriever Business, covering Swedish printed and online press), annual reports and company webpage's. The role of this material was to complement the interviews with document analysis that enabled triangulation and background understanding of the cases (Groenland and Dana, 2019).

3.3 Analysis

The analysis followed a common procedure for multiple case studies by moving from within to cross-case analysis. Each case was first analysed individually and by each author to identify meaningful patterns with the interviews as the main source of data but complemented by secondary material and thereafter compared between authors and contrasted with the other cases for further insights (Groenland and Dana, 2019). To preserve a chain of evidence for the reader, we provide explicit citations from all respondents for each theme that emerged through the sense-making process during analysis (Groenland and Dana, 2019). The outcome of the analysis directed the structure of how the findings are presented to:

1 introduce each case in its context (Section 4.1)

2 to describe and contrast their different coping strategies (Section 4.2) summarised in Figure 1

3 to describe and contract the financial consequences from the legal regulation (Section 4.3) summarised in Figure 2.

Finally, in Section 5 our discussion moves from case-specific to our analytically generalisable model for adaptation of a family business system to internal disruption from divorce (see Figure 3). Due to the sensitive nature of the topic, we relied on one person's perspective of each divorce to avoid the risk of causing distress to other persons involved.

With only one informant per case, we could secure anonymity for the owner-manager but are left with only one, possibly biased, perspective of the process. However, objectivity is less relevant in narrative analysis (Dawson and Hjort, 2012), since the aim is to gain new insights about divorce in the family business setting with lived experiences in focus. In this paper, the names of the family members and companies are disguised to maintain the anonymity of the respondents. The interview quotes provided in the vignettes below represent statements by the owner-managers and have been translated into English by the authors.

4 Findings

We will first narrate the four cases up until the crucial event of the divorce. Then, we present and discuss the different coping strategies of the family business systems, outlining four different patterns of adaptation. Thereafter, we further analyse these differences in relation to the legal contracts they had in place prior to the divorce and the financial repercussions related to these different legal solutions.

4.1 Case vignettes

Gourmet Goods is beautifully located on a farm in rural Sweden, surrounded by fields, green hills and old oak trees. The business is held in the 5th generation. In the 1860s, the farm was acquired by the current owner-manager Peter's grandfather's grandfather, who, after retirement from the German army, moved to Sweden to settle down as a farmer. However, being deeply unhappy with his life at the farm he committed suicide, leaving the farm to his 18-year-old son. Luckily, the son enjoyed farming and expanded the activities by acquiring two neighbouring farms. The 3rd generation took over before World War II. After a period of hardship, decades of steady growth followed. Peter's father took over the farm in the 1970s, gradually transforming it into a modern agricultural business employing around 30 workers. Though Peter's mother is a nurse, she also grew up on a farm and attended agricultural college, and she helps out whenever needed. As the oldest of three sons, Peter was silently appointed as successor and started to work with his father early on:

> "To earn my father's love, I had to prove myself capable with the farm work. I tagged along, sometimes by force and sometimes out of interest."

After finishing high school, Peter attended agricultural college before marrying Anna. Quickly, they had two children. Peter worked full-time at the farm with his father and ownership of the estate was transferred to him, whilst the shares of the business were kept by his parents. Peter constantly needed to prove himself to his father. Peter's interest in testing new ideas was an unceasing source of conflict since his father preferred to do things as he had always done. Peter was not the only thorn in his father's side, who also judged Anna to be of no use. Peter explains:

> "My father is very tough in his unconscious judgment of people's abilities. If she was raking the leaves, he would show her the 'right' way to do it, but she would keep trying it her way and he would show his disapproval."

Peter failed to realise the toll that his failure of intervening in his father's behaviour took on his marriage: "I did not want to take sides, but she perceived that as taking my parents' side". About a decade after he had taken over the estate, Peter bought the company's shares from his parents, but they continued to live and work together at the farm. Only a few months later, Anna told Peter that she wanted to get divorced – a wish that for him came as a complete surprise. Not wanting to give up on their marriage, Peter persuaded her to try family counselling and marriage therapy, but these interventions failed to show effect and divorce became a reality.

The family business *Clean Kitchen* produces completes kitchen solutions mainly for new apartment buildings, with construction companies as the main customer. The company was originally founded by Erik's father with a focus on building wooden houses in the north of Sweden. After Erik completed a master's degree in engineering and after some years in the computer industry, his father asked him to take over the company which then had about ten employees. Erik agreed, though quite reluctantly. Erik's sister was already working in the business, handling the paperwork. Leveraging his own background, Erik diversified the business into electronics and expanded through acquisitions. Erik's family also grew – Erik got married and they had five children. To manifest the family's importance, he decided on an ownership transfer, giving each of his children 10% of the company's shares, his wife 20%, and he kept 30% for himself. At that time, they had about 50 employees. When a crisis in the construction industry hit the company hard, other companies struggled even more and could be acquired cheaply.

> "We have been able to reinvest most of the profit into the business and have taken out some dividends. The kids wanted some money now and then, but we have mainly invested and modernized. We have really made some good money over the years."

A large, modern production facility was built and today the production of their complete kitchen solutions is largely automated. As this is not common in Scandinavia, the company could compete with high quality and high prices – achieving a turnover of appr. 60 mln Euro with 190 employees. Though the business was running well, and several of the children were involved as 3rd generation participants in the family business, Erik's marriage started to fail. After over 30 years of marriage, he decided to move on with his life and asked for a divorce.

The *Bakery Brothers* are a producer of cookies, and their products are sold in supermarkets all over the country. As the company name indicates, the owners are brothers, and those brothers have wives. The CEO of the company is John, who also is one of the main owners. When John was a child, his father started a bakery. Once John and his two brothers were old enough to join the business, they started the industrial production of cookies as a means of expansion. Eventually, this expansion strategy led them to produce a whole range of foods. When it was time for the father to retire, John took over as CEO and the three brothers jointly bought their father's shares far below market value with the deal that the father would stay involved and earn a salary to ease financial feasibility of the succession. This arrangement is still in place, although the father is getting old:

> "He still earns some salary and he is still here every day. He has made an exit that he is comfortable with and that works for all of us."

The three brothers own a third of the company each, and they have a shareholders' agreement regulating the terms for transferring shares. John thought he was a lucky man

– in charge of a successful family business with a turnover of 9 mln Euro and 50 employees, backed up by a beautiful wife and two children. But then his wife began an affair with his best friend, which became the big gossip of the town.

> "She told me in October that she wanted a divorce, but we decided to keep it quiet until after Christmas for the sake of the children, but they figured it out earlier anyways. The children were both young, so there was a six-month trial period. She moved out before New Year, but the divorce was not legally completed until the summer."

Module Masters were a successful supplier in the car industry, owned and managed by Rolf, his wife, and their two children. Together, they had developed the family business over several decades. Their journey started many years ago when Rolf worked in a small manufacturing company. The founder had no heirs but wished for the business to survive. Rolf initially bought 20% of the company, with the aim of taking over the business at the founder's retirement five years later. During these five years, the company grew from 0.2 to 1.6 million € in turnover, and both Rolf and his wife Anita had ambitious plans to continue this development. Together, they bought the remaining shares and Anita, with a strong background in finance, also joined the company. Triggered by Rolf's interest in technology, they invested substantially into automation, creating an efficient production process. The cooperation with one major customer allowed Module Masters to grow at a steady pace. Eventually, Rolf and Anita's two children also started to work at the company. When the gift tax was abolished, they were given 20% each of the business and became partners. Over the years, six million € were invested in the company. In addition, another large company was gained as a client. Although the family business was flourishing, family life was failing:

> "I happened to meet another woman. So, I got a divorce. And the question was – what do we do now with the family business?"

4.2 Coping strategies and family business system adaptation

Next, let us look at the very different coping strategies pursued in the four family business systems to handle the divorce.

Turning the stones at Gourmet Goods: Faced with the reality of the upcoming divorce, Peter was thrown into a fundamental personal crisis. Struggling to continue functioning as if nothing had happened, the emotional stress soon took its toll also on his overall health:

> "I sank deeper and deeper; I got shingles and other medical conditions. The reason was that I held her responsible for causing all this and at the same time I felt that it was my job to fix it."

Peter was deeply unhappy and realised that it was not enough to try curing his medical problems. However, finding the right psychological help was difficult, as the counsellors he consulted mainly offered prescriptions for pills, which was not what he wanted. He understood that he not only needed to come to terms with his divorce but also with the relationship to his parents and his overall goals in life. He began turning over many stones in order to finally find the help he was looking for:

> "Then you start looking for help in suspicious areas; I have tried zone therapy, aromatherapy, magnets, crystals, all humbug there is, you name it! I was searching to save myself."

The divorce took about a year to be finalised. Finally, Peter found help in mindfulness and spiritual-development techniques. The re-evaluation of his own life situation went hand in hand with the refocusing of the family business. When his personal crisis started, his experienced staff continued to do 'business as usual' at the farm, though it lacked his leadership:

> "In the mornings, I showed a reassuring facade of a secure leader to the employees, while at the same time I was so fragile and vulnerable inside, with my mind totally elsewhere."

The impact of this lack of leadership was aggravated by the competitive environment, as traditional farming was an industry in decay. Shrinking margins and price competition by global competitors led to a difficult market situation. In an attempt to scale up the business, Peter acquired two more farms. Conditions kept worsening, however, and profitability could not be achieved for neither grain, milk nor meat.

Peter turned to his network in an unsuccessful attempt to find a solution. Eventually, his bank demanded that he pay back 9 million Euro, forcing him to put the entire estate and farm on the market for 12 million Euro. This was a very hard blow for Peter and made the headlines in the local news: 'Bankruptcy at the renowned Gourmet Goods farm!'. His divorce had already been the talk of the town four years earlier.

As no buyer could be found, the real-estate agent came up with a creative solution: some neighbours bought parts of the surrounding land, leaving the main family-estate buildings and a smaller piece of land for Peter. After being close to losing it all, Peter now has a farm with 40 animals, two employees, and no bank loans. Peter reflects on this development as follows:

> "I got the work of four generations in my lap (…). I could not develop myself under those circumstances. (…) Nowadays, I am thankful for what I have been through because it forced me to seriously work with myself."

Today, the farm produces different Gourmet Goods. In one of his mindfulness courses, Peter met his new wife Carola, who produces cheese based on her grandmother's recipes. Peter provides the milk for her workshop setup at his farm, and she has gained a reputation for her products. While Peter's father finds even these products 'nonsense', this no longer bothers Peter or Carola, as they have found their happiness in continuing the family business legacy in the 5th generation, albeit with their own handwriting and without the burden of running the business that had been passed on to Peter.

Sailing through the storm at Clean Kitchen: As it was Erik who asked for a divorce, he did not face a major personal crisis which limited the negative impact of the divorce on the business. Nonetheless, he was uncomfortable with the rumours that spread in connection to the divorce within the company and in the town:

> "Everyone here knows who we are, so we tried to keep it as quiet as possible because people like to talk. We kept it quiet, but these things spread anyway."

His wife had never been actively involved in the business, and thus there was no disruption within management. But while he continued to successfully run the business, Erik lost interest in keeping the business within the family and preparing for transgenerational succession to the three children working in the business. With the failure of the family system, Erik now regrets that he manifested the business as a family business by giving shares to all five children early on. While he wants to continue to work with developing the company, he is contemplating selling some parts of it to buy out his children.

Covering up at Bakery Brothers: John's way of dealing with the blow of the divorce was to concentrate his efforts into expanding the business. Since the divorce, the business has grown rapidly:

> "All of this made me extra determined to show my capability by leading the business to new heights. It was a big kick to get to prove that I could turn it into something great. You never know exactly where your motivation comes from, but somewhere deep inside I think I wanted to prove to her that she made the wrong choice."

Jointly, the brothers had agreed on covering up the fact that John's marriage agreement with his former wife would not have held in court – after all, it was her who wanted to leave. The wish to keep the successful business in the family was stronger than any moral obligation toward a person they felt betrayed by. In the meantime, John found a new wife.

Losing the fire at Module Masters: Despite Rolf's betrayal, Anita and he managed to continue running the business together for some time. However, after a while, they realised that with the family breaking apart, they had also lost the motivation to maintain Module Masters as a family business. Thus, they decided to sell the company. As they had equal shares in the company and had been working with it for a long time, they were both very concerned about the future of the business:

> "We agreed that it all had to be done properly, so as not to damage the company itself."

Ever since the company's employees had heard about the divorce, they had been worried about the future of the business and their own jobs. To ensure the company's continuation, Rolf and Anita decided to sell it into what they perceived as 'safe hands':

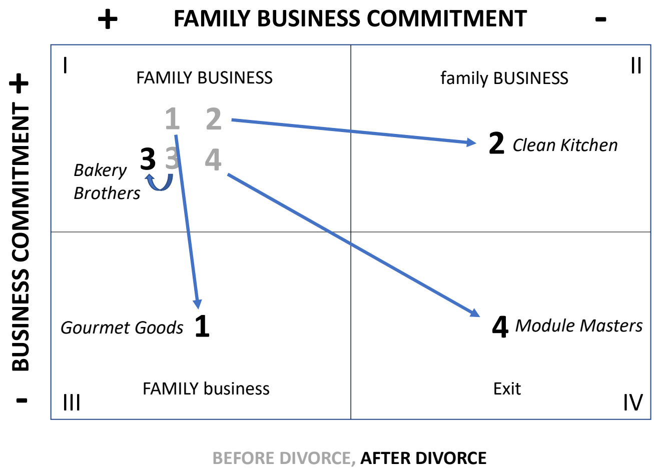
> "We were selling to our biggest client. They had been a very good partner for many years and everyone knew about them."

This company was viewed as an appropriate buyer, as it was Swedish owned and had a long history of cooperating with Module Masters. They offered all four family members the opportunity to stay on. Anita, soon to retire, instead chose an attractive early retirement deal. Rolf stayed at the company and worked for the new owners until the age of 67. Also, the son remained, while the daughter chose to start her own business.

4.2.1 Analysing the coping strategies

The case vignettes above illustrate how the four owner-managers chose very different coping strategies to adapt the family business system to the internal disruption caused by divorce. Prior to the divorce, all four owner-managers were highly committed to maintaining the family business legacy and to continue developing and running the business. Pursuing different coping strategies – with their differing dynamics of personal, family and family business responses – changed these levels of commitments, as depicted in Figure 1.

Figure 1 The impact of different coping strategies on commitment to the (family) business (see online version for colours)



Family business systems have been proposed to vary along a polarity characterised by a 'family first' logic on the one hand and a 'business first' logic on the other hand (cf. Ward, 1997). In practice, many family business systems combine a strong commitment to both logics (quadrant I). This was also true for all four cases in this study prior to divorce. However, after their adaptation to the divorce, only *Bakery Brothers* (trajectory no. 3) remained in this quadrant. This case illustrates a rare example of disruption leading to increased motivation and commitment (Ucbasaran et al., 2013): John felt betrayed by his wife and focused his attention at proving his business skills to impress her and the local community that had gossiped about his wife's affair. Running the business together with his brothers became a top priority, with reinforced focus on securing their family business legacy and on developing the business per se, creating strong family business unity from overcoming hardship. This trajectory seems to strengthen the overall family business system and have a positive effect on most stakeholders apart from the immediate family members suffering from the failed marriage.

The 'business first' type of family business system is depicted in quadrant II, representing a high commitment to developing the business at the expense of diminishing commitment to the family business legacy. This is characteristic of the adaptation of *Clean Kitchen* (trajectory no. 2) to the divorce. After Erik's wife was bought out of the business, he lost the commitment to maintaining the family business legacy of the company. The manifestation of the importance of the family in the family business system was replaced by a 'business first' logic of developing the business activities without much family involvement and the wish to reduce other family members' influence. Trajectory 2 is in this way decreasing the opportunities of family stakeholders but is positive for other stakeholders of the business part of the family business system.

Quadrant III captures the 'family first' type of family business with high commitment to the family business legacy and subordinate commitment to the business per se. *Gourmet Goods* (trajectory no. 1) was affected by its owner-manager's decreased business commitment resulting from the re-assessment of his personal situation triggered by the divorce. Given the difficult competitive situation and the financial distress connected to it, Peter chose to restart the family business together with his new wife on their own terms and with family well-being in focus, focusing on small-scale Gourmet Goods production. This trajectory is thereby positive to the preservation of the family tradition, while the decrease in business growth and development is negative for (former) employees and external stakeholders.

Lastly, quadrant IV represents the loss of commitment to the overall family business system, i.e., both the family business legacy and developing the business per se lost relevance for the owner-manager. Rolf and his wife had together developed *Module Masters* (trajectory no. 4) from a small company into a successful subcontractor. When they divorced after decades of marriage, they experienced a loss of commitment to the family business system and chose to exit from it. While it was important for them to find a solution that was not harming their employees, they no longer wanted to be in charge of the business. This fourth trajectory leads to a loss of opportunities for the family stakeholders and an uncertain effect on other stakeholders when moving from well-known family owners to non-family owners with somewhat less predictable intentions for the business.

Thus, our study illustrates how divorce can trigger different coping strategies which can lead to adaptations of the family business system which then fundamentally change the commitment towards the family business legacy and/or the continuation and development of the business activities per se.

4.3 Legal regulation of divorce in Sweden and its financial consequences

According to the Swedish legal system, in the case of divorce, all marital property is included in the division, including assets which were held by the spouses before the marriage. A central purpose of the Swedish Marriage Act is to protect the spouse who owns relatively less, and the legal system does not regard any consequential drawbacks on the family business due to divorce (Sund et al., 2010). The process of division of marital property starts with an estate inventory where assets and debts for each spouse are valued and listed. Deduction of debts provides a net value which is summed up and divided equally between the two spouses. If a spouse owns shares in a family business, these are reduced to an asset that is part of the calculation of the net value. In practice, agreeing on the value of the shares is often difficult and can prolong the divorce process considerably (see Haag and Sund, 2016).

In Sweden, there is no legal difference pertaining to whose fault the divorce is, and thus there is no need to legally determine such fault. Many couples choose to solve the division informally on their own. If the parties fail to reach an agreement, each can apply to a court to have a property division executor appointed.

Generally in Sweden, the division of marital property in the case of a divorce involving a family business can result in three scenarios:

1. Through a legal contract, (e.g., a marriage settlement) the business has previously been transferred into separate property of the owner-spouse and therefore is not included into the assets to be shared.
2. Without a legal contract, the business is included in the calculation of the net value and thus its value is divided among the two parties. To avoid the ex-spouse’s

ownership in the business, the owner can compensate ownership with a buy-out with money or other assets, which causes a financial repercussion to the owner and in continuation also to the resources available in the firm.

3 If the business is included among the shared assets (if there exists no contract or a contract with such stipulation) but monetary compensation is not an option due to a lack of financial resources, the owner-spouse is forced to transfer half of their own shares in the family business to the former spouse.

This results in a changed distribution of ownership with potentially severe consequences for the family business. These three scenarios depict the legal consequences when divorcing spouses do not agree. The divorcing couple can decide for any other solution, as long as both are in agreement. However, divorce attorneys often see a very low willingness of collaboration between the spouses since divorce is typically conflict-laden (Haag and Sund, 2016). Next, we will turn to the solutions identified in our four cases.

Gourmet Goods: During transgenerational succession, the real estate connected to the family business had become separate property of Peter through a conditional gift and therefore it was not included in the division of marital property during divorce. Also, a prenuptial agreement had been made, protecting the ownership of the business.[2] No official division of marital property was made, but the issue was a delicate matter. Their home was full of family heirlooms of great emotional value to Peter's family. Peter was afraid that Anna would use that against him, so he let her take everything she wanted of their joint possessions as long as the historical artefacts were left to him. While he was not even very attached to them personally, he felt obliged towards his family to preserve their history.

Peter could not see his beloved Anna, mother of his children, leave without any financial means. He took loans to buy her an apartment, free her of her study loan and arrange decent financial conditions for her. Due to Peter's increased personal expenses, these arrangements had negative repercussions on the business, as it drained it of cash needed for operational activities.

Clean Kitchen: As Erik felt guilty for splitting up their marriage after more than 30 years, he offered his former wife monetary compensation that well exceeded her share of the summed net value that included her 20% in the business:

> "I asked her, 'If you get money that provides for you for over 200 years, so that you are financially independent, would you feel content?' And yes, she thought so, and she is still very satisfied with that."

A partial estate division was arranged to free up the capital. Before the ownership transfer, a special dividend was paid to provide her with an initial payment. It was also agreed that she would take over four private pension insurances from Erik.

> "Since we were in total agreement, we just used our company lawyer to draft the terms. She got so much money from the first step that she was not in a hurry to take out the rest. (…) To finalize the estate division, some years later she was to receive the remaining three insurances."

Bakery Brothers: John and his brothers each had an ownership agreement with their wives regulating that the brother's company shares would not be included in the marital property in case of divorce. However, the validity of that agreement turned out to be questionable:

> "We had a contract, signed by all three wives, that they had no claim in the business in case of a divorce. When my divorce became a fact, I referred to that ownership agreement that said that she had no right to the business. In our divorce, she was the guilty one which led to that she did not try to make any claims. Thus, she did not receive anything. It did, however, turn out that the ownership agreement was not valid. One of my friends is a lawyer and he made it clear to me that there was no chance this contract would hold in court. Since she took the blame for the divorce, she did not doubt the agreement and just left, so, fortunately, I did not have to go through a legal process."

While the brothers thought they had taken protective legal measures, they had an ownership agreement instead of individual prenuptial agreements and, in that case, family law prevails over company law in Sweden.

> "My former wife and I did not have a prenuptial agreement. (…) You always marry with the intention that it is to last forever. To ask for a prenuptial agreement is sensitive, it can be taken the wrong way. My ex-wife and I had lived together for so long and she had put her career aside over the years so that I could manage the business. But then again, such agreements are done so that the business can live on, it does not work otherwise."

For the business to continue and prosper was also of interest to the ex-wife, since it involved the future of their children. John took a loan to buy his ex-wife's part of their house. Other belongings were split in a way they both agreed on.

Module Masters: Rolf and Anita did not have a prenuptial agreement, or any other previous agreements, affecting the property settlement. As they had both worked in the company for a very long time and developed it together, both spouses considered it natural that the common shares should be divided between them, as Rolf explains:

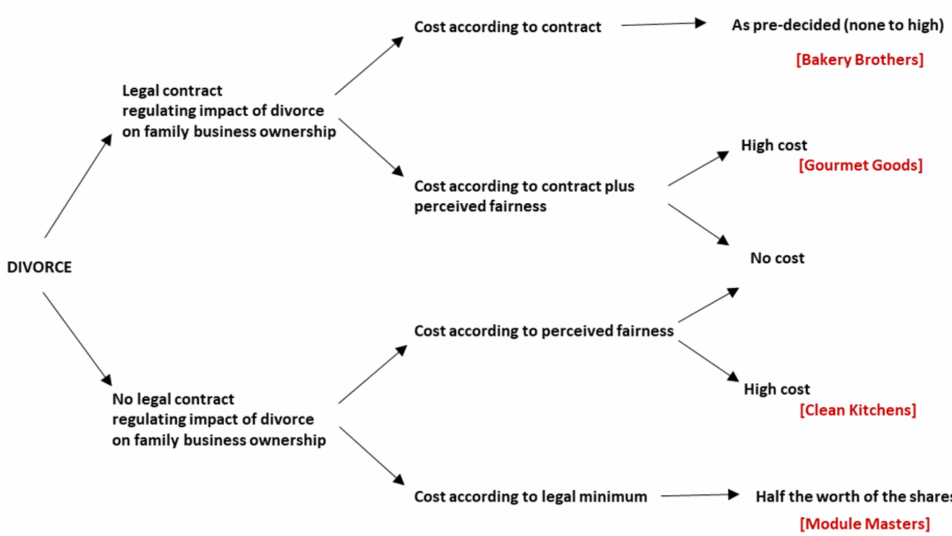
> "It was crystal clear that we should split the shares equally, so we just let our company accountant handle the division of property for us."

4.3.1 Analysing the financial impact of different legal contract solutions

Above, we introduced different scenarios provided for by the Swedish legal system. However, our four cases illustrate that in practice divorcing owner-managers might choose different solutions, for example when the desire for fair treatment of the former spouse leads them to agree on solutions beyond what is stipulated in the law or had been previously contracted. The outcomes of divorce according to legal regulations are thus combined with the perceived fairness that is caused by the individual divorce situations in practice. Figure 2 shows that most routes lead to direct or indirect financial repercussions on the family business.

Two of our cases had contractual agreements in place. In the case of *Bakery Brothers*, the brothers had a contract that stipulated that none of their wives had any right to the business in case of divorce – even though this contract later turned out not to be valid. However, as the former wife was the one asking for a divorce, she made no claims to test its validity and left with nothing apart from some of their shared belongings, causing no direct financial repercussion on the business. For *Gourmet Goods*, the situation was similar in that Peter's wife initiated the divorce, but his parents had insisted that the shares in the business were contracted as separate property belonging to Peter when he took over ownership from them. Therefore, no assets related to the business were included in the marital property and the direct financial repercussion on the business could have been nil. However, Peter decided to share more than what he was legally obliged to because he still cared for his ex-wife and wanted to provide for the mother of his children.

Figure 2 The financial repercussions of divorce in relation to legal regulation and perceived fairness (see online version for colours)



The other two cases did not have contractual solutions in place before the divorce. In the case of *Clean Kitchens*, the profitable business was an asset included in the marital property to be shared. Feeling guilty about the divorce after more than 30 years of marriage, Erik did not stop there but chose to financially overcompensate his ex-wife, which was facilitated by the fact that there was no shortage of financial means. *Module Masters* was jointly run by Rolf and his wife which means that they both had legal rights to the business in division of marital property, as nothing else was contracted. Rolf initiated the divorce, but it was a low conflict separation where the former spouses even intended to continue as business partners at first. When realising that their motivation was lost, they sold the company and shared the money in accordance with the legal stipulation. The financial impact on the business is therefore different in this case, as an exit option was taken. Thus, the financial repercussions can range from insignificant to unmanageable for the owner-spouse that wishes to keep the family business shares, depending on legal preparatory measures undertaken and the circumstances of the case in point. Any financial set-back for the owner is negative to the family business system and its various stakeholders. The uncertainty of the outcome during the lengthy divorce and recovery process is also harmful to the business.

5 Discussion

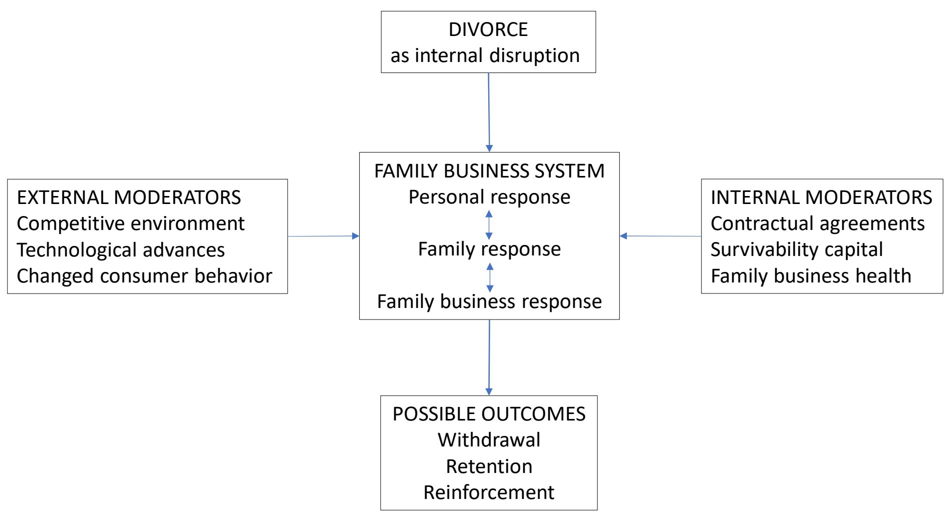
Our cases have illustrated the divorce processes of four owner-managers in relation to their family business system. Even though the individual processes were very different, it was evident in all cases that the divorce was coped with in individual ways. The individual coping strategy with the divorce was tightly related to the degree of guilt felt.

In all cases, the business system was deeply impacted by the family system failure – though these impacts ranged from selling the company to gaining additional motivation for expanding it.

Our cases have also illustrated the other side of the same coin, which is hardly covered in the psychologically-oriented divorce literature – the consequences of legal regulations on how marital property is to be divided between the divorcing spouses. The deriving financial repercussions, both on the personal and the business level, can become a major factor of distress in the divorce process. The cases have shown different types of arrangements and results – and even though the Swedish legal system does not apply the principle of 'divorce fault', how guilty or not the owner-manager felt in the divorce process made a clear impact on their subsequent behaviour.

Our findings are integrated into a general model on family business adaptation to internal disruption (see Figure 3).

Figure 3 Adaptation of the family business system to internal disruption (see online version for colours)



Successful family businesses tend to build sustainable competitive advantages from their unique family resources (Frank et al., 2012). This makes them their own worst enemy, as the major threat to such an advantage comes from internal disruptions to the family harmony. Hence, the divorce of an owner-manager is not only a family tragedy but disrupts the family business from within with far-reaching consequences for the business (Jaskiewicz et al., 2017; Jaskiewicz and Dyer, 2017). It causes a shock to the family system inevitably spilling over to the business system of the family business hybrid organisation (Albert and Whetten, 1985; Olson et al., 2013). The adaptation to this internal disruption can be very disruptive to the organisational identity and the coping process can take several years (Haag and Sund, 2016), creating prolonged distress on the business system. The family business responses can, however, vary greatly. Not only are family businesses a heterogeneous group (Dibrell and Memili, 2019), but also the coping strategies differ among seemingly similar family business systems. Diversity in the responses identified is moderated by external and internal factors along with the circumstances of the respective divorce. Owner-managers who initiate the divorce themselves might be less impacted than owner-managers surprised by a divorce initiated by their spouse.

The legal preparations undertaken (or lack thereof) regulate the financial repercussions on the business unless new terms are agreed upon by the parting spouses. The family business health before the divorce influences its resilience capacity (Sirmon and Hitt, 2003) and thereby its ability to recover from it. The options available in the responsive phase depend on the survivability capital (Sirmon and Hitt, 2003) of the family business system which might be severely hampered depending on the perceived fairness of the divorce scenario. This is moderated by external circumstances such as industry competitiveness, technological discontinuities and sociodemographic changes such as changing consumer behaviour. The strength of the family business legacy will affect the organisational identity gap (Foreman and Whetten, 2002) caused by the divorce and the following change in commitment to the family business system. The perceived emotional and motivational costs associated with the failure of the marriage (cf. Ucbasaran et al., 2013) affect the business commitment but may result in different behavioural outcomes. The emotional cost is closely linked to the perceived 'blame' for the divorce, where being left hurts more than initiating the divorce. Divorce is furthermore a type of internal problem the owner-family wishes to conceal in order to uphold its reputation (Lohe and Calabrò, 2017), which adds stress to the already strained situation. The effect on motivation is less straightforward, since, in line with the findings by Ucbasaran et al. (2013), perceived failure can both hamper and trigger motivation, although the former might be the more common reaction. Finally, the response to divorce moderated by external and internal factors will ultimately result in withdrawal, retention or reinforcement of the family business system. These outcomes, caused by disruption within the owner-family, impact other stakeholders, primarily in negative ways stemming from distracted leadership and financial constraints.

6 Conclusions

The specific characteristics of family businesses allow them to develop unique competitive advantages. These family-induced advantages can quickly turn into liabilities when the harmony of the family system is disrupted. Our findings contribute to the family business literature by illuminating the impact of divorce on the family business system. Divorce is one example of the type of research called for on negative family events and non-traditional family stages (e.g., De Massis and Foss, 2018; Jaskiewicz and Dyer, 2017). Family business systems are unique in their hybrid nature which exposes them to both family system and business system disruption. They are strongly influenced by the upper echelon of owner-managers to whom power tends to be centralised, with overlapping ownership, management and family roles, which increases the impact of family system failure on the family business system. This makes family businesses especially vulnerable to internal disruptions such as divorce. Here, we contribute with a better understanding of different coping strategies and patterns of family business system adaptations, accounting for both managerial and legal aspects.

Furthermore, we contribute by illuminating the heterogeneous nature of family businesses under disruption and propose how different external and internal moderators influence responses on the personal, family and business level (see Figure 3). We add to the entrepreneurial failure literature by developing a more nuanced understanding of how failure in the family system triggers coping mechanisms that can have both negative and positive consequences to the family part and/or the business part of the family business system.

6.1 Limitations and future research

Our study is an initial attempt to explore coping strategies and adaptations of the family business system to divorce. We do not claim to have identified an exhaustive list of coping strategies. Hence, we see a need for continued exploration to gain a better understanding of these as well as possibly additional coping strategies and patterns of adaptation.

Our study was conducted in Sweden and thereby contextualised in the Swedish cultural and legal setting. Gaining a deeper understanding of complex phenomena by nature requires contextualisation and more studies are needed within the legal frameworks of other countries. As Sweden is a secularised society with a strong social security system and low stigmatisation of divorce, more extreme responses might be found in other countries.

Divorce is one example of negative events and non-traditional family stages in need of research attention and future research should continue to explore other negative events such as illness and non-traditional stages such as re-marriages to further our understanding of family business beyond a narrow understanding of family. Finally, our study has pointed to a number of instances where family law and commercial law in Sweden appear to collide, due to conflicting logics between the two legal frameworks. These clashes deserve further empirical exploration and could be helpful for formulating useful policy implications adapted to family business needs.

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Notes

1 Based on the *divorce to marriage ratio*, which is the number of divorces to the number of marriages in a given year.

2 Land must be owned by a physical person while the farm in this case is turned into a limited company that pays tenancy to the landowner.