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'GOVERNANCE ISSUES IN FAMILY BUSINESSES'

THE VIEWS OF FAMILY-MEMBER-EMPLOYEES, NON-FAMILY-MEMBER-EMPLOYEES AND MANAGEMENT

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Abstract

It is widely known that a family's involvement in a business distinguishes a family business from the rest. This research details the importance that employees who are family members, non-family members, and managers of family businesses give to fourteen corporate governance issues affecting family business operations. Data was collected from 395 respondents from Ghana, a sub-Saharan economy. Respondents' responses were analyzed using frequencies, percentages, means, standard deviations, and principal component analysis. All respondents rated the preparation and training of a successor as the most important factor needing attention in family business operations, relative to other factors. Based on the results of the survey and analysis, implications are drawn for family businesses and recommendations made to owners and managers of such firms.

Keywords: Corporate Governance, Contractual Governance, Relational Governance, Ownership, Succession

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INTRODUCTION

Many times, individuals form business organizations and run them. The individuals forming such a business may be people related directly or indirectly by blood, i.e. whether through the nuclear family system or extended family system. Such a firm owned and managed by individuals from one family (nuclear and/or extended), either wholly or in part, may be termed as a family business unit.

Throughout literature, the definitions of what constitutes a family firm vary widely across studies. Some scholars (e.g. Gallo, Tapies, and Cappuyns, 2000; Getz &Carlsen, 2000) define a firm as being a 'family firm' depending on whether the respondent believed that the firm was one, while other researchers based their definition on more objective criteria such as the percentage of family ownership or the number of family members that occupy management or board positions. McConaughy, Matthews, &Fialko (2001) stated that public corporations whose CEOs are either the founder of a member of the founder's family are family businesses. To Daily and Dollinger (1992), if there are key managers related to the owner (by blood or family ties) working in the business, the firm is considered a family firm.

Dess, Lumpkin, & Eisner (2010) state that family businesses constitute the whole gamut of enterprises in which an entrepreneur or next-generation CEO and one or more family members strategically influence the firm. Through their *managerial or board participation*, their *ownership control*, the *strategic preferences of shareholders*, and the *culture and values* family shareholders impart to the business, they influence the firm.

Participation refers to the manner in which family members are involved in the business, i.e. as management team members, as board members, as shareholders, or as supportive members of the family foundation. *Ownership control* refers to the obligations (rights and responsibilities) of family members arising from their appreciable ownership of voting shares and the governance of the family-business relationship. The permissible risks and strategic direction that family members set for the business through their involvement in top management, consulting, and the board of directors, shareholder meetings, or even family councils are referred to as the *strategic preferences*. *Culture* refers to the values, defined by behaviours that become embedded in a businesses as a result of the leadership provided by family members, both past and present (i.e. the organizational behaviour). Thusly, according to Dess, Lumpkin, & Eisner (2010), a family business unit amalgamates the following:

1. Ownership Control (15% or higher) by at least two members of a family or a partnership of families;
2. Strategic influence by family members on the firm's management, whether actively, as counselors or advisors to management or board members, or as active shareholders;

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3. Concern for family affiliations or relationships; and
4. The dream (or probability) of continuity across generations.

Dess, Lumpkin, & Eisner (2010) further state that the following characteristics define the essence of the uniqueness of family firms:

1. The family's presence;
2. The interplay between family, management, and ownership, with its zero-sum (win-lose) inclinations;
3. Special competitive advantage sources, such as long-term investment horizon, which emanates from the overlap of family, management, and ownership, especially when there is absolute family unity;
4. The owner's dream of keeping the family's business interest or control across generations; and
5. The strategic influence of non-economic family goals and values

Even though definitions vary, the vital things to note are that family businesses are different from traditional corporate firms in many ways, such as their stakeholder constituent (i.e. the relationship between family members, top management, board of directors); the emotional attachment to ownership and ambivalence; the duality of goals, i.e. economic and non-economic; a shared sense of identity and lifelong common history for family members or relatives working in a family business, which influence their behaviours both on and off the job; and the different means used in their communication, documentation, conflict resolution, etc. (Mustakallio, Autio, & Zahra, 2002; Roy, 2010; Taguiri& Davis, 1996; Poza, 2010). In his view, Roy, Rejeev (2010) stated that the best managed family businesses across the world share some common characteristics, which include:

1. Communication – there is either a formal or informal fora for dialogue (or both) between family members. The communication should be objective, free, factual, and all issues should be discussible to allow for the early identification and possible solution of any likely cause of conflicts.
2. Independence – senior family members must have unique, well-specified roles and responsibilities, which do not overlap.
3. Shared vision – in order to avoid possible internal strife and bickering, and also allow for ardent participation by all, different family members must learn to accommodate and integrate their varying visions about the direction and scope of the business.
4. Documentation – clearly documenting all agreements between constituents will show categorically each person's rights and responsibilities. If the will of the founder is

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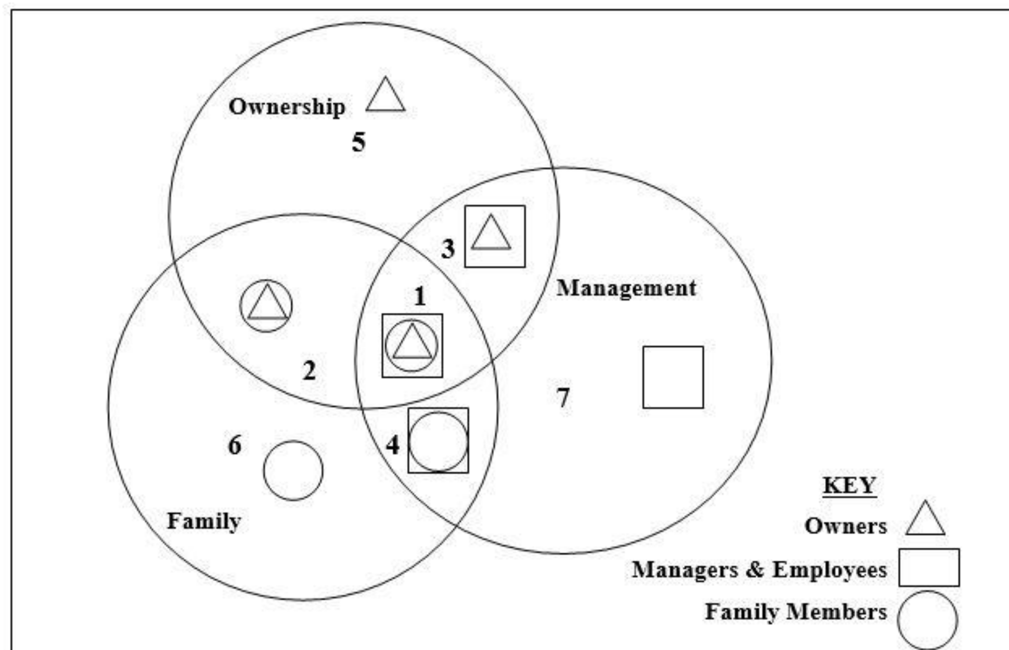
available to determine the shares of the progeny, it can reduce the scope of argument between siblings.

5. Conflict resolution –conflict is inevitable in every human institution, including family businesses. Therefore, conflict resolution mechanisms should be established.

Tagiuri and Davis (1996) stated that for a family business, every key attribute or characteristic could be a source of advantage and, at the same time, disadvantage for owning families, nonfamily employees, and family employees depending upon how well these features are managed. The family's well-being and the relationship of the family with employees and with the greater community will be affected by the way the attributes are managed.

Poza (2010) states that the 'systems theory' is the theoretical approach most often used in the scholarly study of family business. The systems theory approach models the family firm as containing three overlapping, interacting, and interdependent subsystems of family, management, and ownership. The systems theory maintains that each subsystem retains boundaries that separate it from other subsystems and the general external environment within which the family operates. In order for the business to perform optimally, the subsystems must be integrated so that the entire system functions in a unified way, as depicted in the model below:

Figure 1: Overlap of Family, Ownership, and Management Groups /The Systems Theory Model of Family Groups



Adopted from Tagiuri et al. (1996) and Poza (2010)

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The model suggests that a family business is best understood as a complex and non-static social system which attains integration through reciprocal adjustment among subsystems. For this reason, the family subsystem is expected to have a strong impact on the ownership and management subsystems, and vice versa. Understanding comes only when all three subsystems, with their interactions and interdependencies, are studied as one system.

Different members of the family in the business are likely to define issues, priorities, and problems differently. The individual viewpoints of family members and the firm will definitely vary because of their positions in the system. For instance, a parent who is CEO and 100% owner of the firm (shown by position 1 in Figure 1) will most likely view issue, priorities, and problems very differently from a family member who is not actively involved in management and does not own any share in the business (position 6). In the same vein, a non-family manager (position 7) is likely to have a very different viewpoint as a result of their unique placement in the family business system (Poza, 2010).

Corporate Governance

The above characteristics exhibited by family firms require that different mechanisms are used in the governance of family firms for effective performance. The Organisation for Economic Co-operation and Development (OECD) (1999) describes corporate governance as a set of relationships between a company’s board, its shareholders, and other stakeholders. It also provides the structure through which the objectives of the company are set and the means of attaining those objectives, and monitoring performance, are determined. The Sir Adrian Cadbury’s Report on the Financial Aspects of Corporate Governance (1992) defined corporate governance as holding the balance between economic and social goals and also between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations, and society. The incentive to corporations is to achieve their corporate aims and to attract investment. The incentive for states is to strengthen their economies and discourage fraud and mismanagement.

Corporate governance or organizational governance, as defined in ISO FDIS 26000, is the system by which an organization makes and implements decisions in pursuit of its objectives. Simply put, ‘governance’ means the process of decision-making and the process by which decisions are implemented (or not implemented). The ISO FDIS 26000 further states that it is the most crucial factor in enabling an organization to take responsibility for the impacts of its decisions and activities and to integrate social responsibility throughout the organization and its relationships (Crowther & Seifi, 2011).

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As in Sun, Stewart & Pollard (2011), Monks & Minow (2011) and Clarke (2007) among others note that the common understanding of corporate governance is often narrowly confined to the structure and functioning of the board or the rights of shareholders in corporate decision-making. For example, in the UK Corporate Governance Code, corporate governance is defined as being 'about what the board of a company does and how it sets the values of the company' (Financial Reporting Council, 2010). Blair (1995) takes a much wider view of corporate governance and refers to corporate governance as 'the whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised, and how the risks and returns from the activities they undertake are allocated.

Further to Blair's (1995) definition, Sun, Stewart & Pollard (2011) opined that corporate governance basically entails four-level legal, cultural, and institutional arrangements, including regulatory governance, market governance, stakeholder governance, and internal (shareholder) governance. Thus, broadly speaking, a corporate governance system is the whole set of regulatory, market, stakeholder and internal governance. Regulatory governance refers to the public order and control over corporations by state laws and decrees, governmental and professional bodies' regulations, and government policies. Market governance refers to the application of various market mechanisms (such as supply and demand, price signal, free competition, market entrance and exit, market contract and market bid) to control and discipline corporate behaviour and action. Stakeholder governance refers to the direct and indirect control or influence over corporate business, decision-making and corporate behaviour by key stakeholder groups who have direct or indirect interests in the corporation. Typical stakeholders may include suppliers, investors, financiers, customers, government and local communities, employees, and the media. Internal corporate governance refers to the institutional arrangement of checks and balances among the shareholder general meeting, the board of directors and management within the corporation, prescribed by corporate laws. Even though the board may be at the center stage of internal governance, the shareholder general meeting and management are equally important in the checks and balances. Many people usually ignore the triple close relationship in internal governance and mistakenly regard shareholders and their representatives on the board as 'outsiders' rather than 'insiders' in the internal corporate governance structure. It is indeed paradoxical to consider shareholders as 'owners' and members, yet 'outsiders' of the corporation (Sun, Stewart & Pollard, 2011).

Incorporating, on the one hand, the interests involved in the process of corporate governance and, on the other, the structures and mechanisms of corporate governance, Sicoli (2013) obtained a matrix as in Figure 2.

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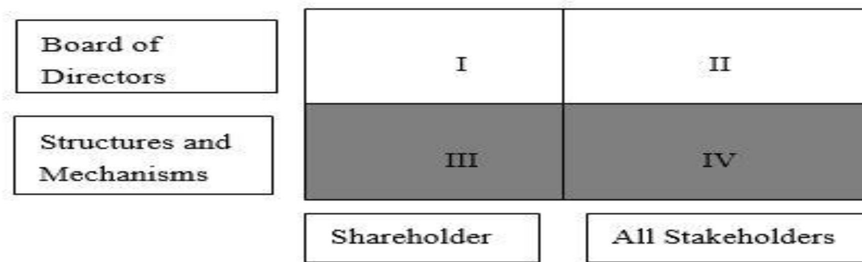
Figure 2: Different Definitions of Corporate Governance



Source: Sicoli (2013)

Quadrant I inculcates studies which predominantly consider the shareholders' perspective and leave the responsibility of financial governance to the Board of Directors (BoD). The BoD thus becomes the main body in the structure of governance, and scholars' attention focuses on its composition in terms of numbers, degree of independence and ability to carry out a controlling function to safeguard shareholders from potentially opportunistic behaviours by management.

Quadrant II focuses on those who recognize the importance of a plurality of stakeholders to be taken into account in performing the function of business governance who, at the same time, consider the BoD as the only governing body of the firm. This multi-agency approach broadens the responsibilities of the BoD which, has its principal, the owner-shareholders, but also a broader range of actors.

Quadrant III considers definitions of corporate governance which contemplate the protection exclusively of the owners' interests through a great number of bodies and mechanisms, internal and external to the firm. In this case, corporate governance must seek to guarantee and safeguard the suppliers of risk capital (shareholders), and ensure that managers maximize shareholder value through a more institutional structure which is more varied and more complex than the simple board of directors.

Quadrant IV extends the definition of corporate governance to consider more than just the interests of one class of subjects (the shareholders-investors), but places them, rather than in a position of total supremacy, on a privileged plane relative to other actors who nonetheless play a role in the growth of the firm. Further, protecting diverse interests is not the exclusive prerogative of the BoD or other formal bodies, but it is obtained through a complex web of relations between the institutional environment and characteristics specific to the firm (Sicoli, 2013).

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Governance and Family Firms

Extant literature advances that the dichotomy between family and non-family firms is particularly evident in terms of models of corporate governance. Again, the family is the contrasting determinant, periodically epitomized as an element of interference, and other times, seen as the driving force of success. One factor that acts on corporate governance is the capitalistic system of the country in which the family firm is located and it presents particular aspects which derive from the coexistence of two institutions, the "business," on one hand, and the "family," on the other, guided by two contrasting logics – "rationality" and "sentiment" – respectively. Contrary to general perception, government structures of family firms are often more complex relative to those of other business types; further, no one true authentic and fixed model of corporate governance exists per se which may allow us to identify them. A look out to identify common traits between family firm governing structures gets complicated for two reasons – the lack of a coherent and universally accepted definition of a family firm; and variations in the forms in which family firms manifest themselves, such as first generation family firm, second or third generation family firm, multiple-ownership family firm, among others.

In a typical family firm, the owning family may be primarily concerned with the sustenance and well-being of its members (driven by a logic which appeals to sentiments, unity, tradition, harmony, etc.), while the firm may be concerned with generating products (goods and/or services) through results-oriented behaviours (driven by rationality in decision-making, adaptive behaviour toward the changing environment of business, etc.). In order to come out with an adequate governance system that enables the two institutions (the family and the firm) interact positively and efficiently despite their different aims, values, and even institutional structures, attention should be concentrated on both simultaneously. Reticulating family concerns with those of the firm and the reciprocity of influences of both institutions undoubtedly impact on the composition and structure of governance (Sicoli, 2013; Ward, 1997; Anderson, Jack, & Drakopoulou-Dodd, 2005).

Research Problem and Objective

Undoubtedly, family businesses vary from the traditional corporate firms in many respects. As a result of these differences, attention must be paid to its (family business) governance. However, many family businesses fail to recognize the importance of several issues that affect governance of such firms in order to ensure their long-term profitability, and continual existence. Issues relating to successor planning and training, balancing family concerns and business' interests, inclusion of non-family members in the Board of Directors, and a host of many other issues relating to family firm governance are either not considered important or those that

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consider them as important rather attach little importance to them, leading to the abrupt collapse of many family businesses. This research aimed at unearthing the importance management, family-member-employees, and non-family-member-employees attach to fourteen (14) family business related governance issues.

METHODOLOGY

In this research, businesses that are owned (partly or wholly), managed, and controlled by a family were included in the family business category before drawing samples for the study. The family businesses were selected employing the Cluster Sampling technique from the Greater Accra, Ashanti, and Eastern regions of Ghana, which constitute the most populous and commercially centered business areas of the country. Family businesses within these regions were clustered into three groups and a sample randomly selected from each of them. The three clusters were defined as "family businesses that are 10 years old or less", "family businesses that had existed for more than 10 years but up to 30 years", and "family businesses that are more than 30 years old." Use of cluster sampling conforms to the elucidation by Cochran (1977) and Henry (1990).

We used data collected from 395 respondents from Ghana, a sub-Saharan economy in Africa. The respondents comprise management personnel, employees who are also members of the owning family, and employees who are neither management personnel nor family-member-employees. Out of seventy (70) questionnaires distributed to management personnel of family businesses, sixty (60) responded, representing 85.7%. Similarly, out of 98 questionnaires that went out to family-member-employees, 87 were received, which represents 88.7%. Non-family-member-employees constituted the majority of workers in every firm that was visited and a total of 270 questionnaires were distributed to this category of workers, out of which 248 responded, representing 91.9%. The overall response rate was 90.1%.

Convenience and Purposive sampling techniques were used in the administration of questionnaires, which in some cases, were followed with interviews to clarify unclear responses. These techniques were employed because of the difficulty associated with identifying and contacting all the elements in our population of study as well as the necessity to purposively select respondents in some cases (e.g. management) because, in our judgment, they could provide answers that would enhance the attainment of our objectives. The use of these sampling tools are consistent with the suggestions by De Vos (1998) and Saunders et al.(2007). The respondents' responses were analysed using frequencies, percentages, means and standard deviations. The responses were also subjected to Principal Component Analysis (PCA) using ones as prior communality estimates. The number of components was extracted

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using the principal axis method. In order to normalize the variation among the variables, Varimax (Orthogonal) Rotation with Kaiser Normalization was used.

ANALYSIS AND DISCUSSION

Preparing and training a successor/Developing a relationship between a successor and non-family members

As displayed in Table 1, managers rated 'preparing and training a successor' as the most important among the fourteen factors, with almost everyone rating it as either critically important or very important. 76.7% rated the preparation and training of a successor as critically important while the remaining 23.3% said it was very important. No management personnel rated this governance factor as just important or below. Likewise, managers rated 'developing a relationship between a successor and non-family members' as highly important (93.3%). Employees who are also members of the owning family rated 'preparing and training a successor' as equally important (see Table 2). While 4.6% of this category of workers attached little importance to it, 59.8% said it was critically important. Overall, 95.4% of this category of workers indicated that preparing and training a successor for the family business was important and needed attention. The same logic followed 'developing a relationship between a successor and non-family members' for this category of respondents, with 86.1% rating it as important.

Table 1: Managers' responses to selected issues affecting family business governance

Issues	Valid %							Mean	SD
	1 Not at all Important	2 Less Important	3 Little Important	4 Neutral	5 Important	6 Very Important	7 Critically Important		
Preparing and training a successor						23.3	76.7	**6.77**	**0.427**
Balancing Family Concerns and business' interests					16.7	45.0	38.3	**6.22**	**0.715**
Including non-family members in the BoD		6.7			6.7	25.0	61.7	**6.28**	**1.303**
Selecting Family members for positions in the business	35.0	11.7	6.7	20.0	6.7	13.3	6.7	**3.18**	**2.071**
Maintaining ownership control in the family	6.7	35.0		13.3	6.7	31.7	6.7	**4.00**	**2.000**
Distributing ownership among family members	43.3	30.0	6.7	6.7	6.7	6.7		**2.23**	**1.555**
Dealing with incompetent family members active in the business					13.3	31.7	55.0	**6.42**	**0.720**
Maintaining a role for the founder in the business after retirement	6.7	25.0	23.3	11.7	6.7	20.0	6.7	**3.73**	**1.812**
Balancing short-term and long-term business decisions		6.7	6.7	41.7		6.7	38.3	**5.08**	**1.710**
Changing from family management to Professional management		6.7		13.3		18.3	61.7	**6.08**	**1.499**
Maintaining loyalty of non-family members				6.7	11.7	13.3	68.3	**6.43**	**0.945**
Developing relationship between successor and non-family members				13.3		28.3	58.3	**6.32**	**1.017**
Changing from an autocratic to a democratic style of leadership			6.7			18.3	75.0	**6.55**	**1.032**
Defining the role of the board of directors		6.7			6.7	41.7	45.0	**6.12**	**1.263**

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In the same vein, 82.3% of non-family-member-employees indicated that preparing and training a successor was important. Even though 8.8% of them saw it as less/little important or not important at all, as much as 61.3% indicated that it was either very important or critically important (Table 3). Likewise, 74.2% said that ‘developing a relationship between a successor and non-family members’ was important. They explained that once a successor is chosen and trained to acquire the requisite qualification, he/she must be integrated into the business and allowed to build a rapport with staff, especially non-family-member-employees who the successor may not know very well; in order to be able to work effectively with them.

Balancing family concerns and business’ interests

From management’s perspective, 16.7% said that balancing family concerns and business’ interests was just important, 45.0% said it was a very important issue, and 38.3% said it was critically important. Nobody among management personnel thought that this was not an important issue at all (refer to Table 1). In contrast, as shown in Table 3, 11.6% of non-family-member-employees think that this governance issue should not be given adequate attention because it is of little/less importance or not important at all. One worrying revelation was that as much as 30.6% of non-family-member-employees were neutral about the importance or otherwise of this governance issue. 58.1% of them however, indicated that balancing family concerns and business’ interests was worth considering as important. 80.4% of the family-member employees, on the other hand, indicated that it was important (Table 2).

Table 2: Family-member employee responses to selected issues affecting family business governance

Issues	Valid %							Mean	SD
	1 Not at all Important	2 Less Important	3 Little Important	4 Neutral	5 Important	6 Very Important	7 Critically Important		
Preparing and training a successor			4.6		12.6	23.0	59.8	**6.33**	**1.019**
Balancing Family Concerns and business' interests	3.4		3.4	12.6	32.2	31.0	17.2	**5.32**	**1.316**
Including non-family members in the BoD	4.6	4.6	32.2	17.2	3.4	21.8	16.1	**4.40**	**1.775**
Selecting Family members for positions in the business	3.4	3.4	4.6	13.8	12.6	31.0	31.0	**5.46**	**1.598**
Maintaining ownership control in the family	8.0	18.4	21.8	4.6	23.0	20.7	3.4	**3.92**	**1.754**
Distributing ownership among family members	9.2	17.2	17.2	9.2	18.4	12.6	16.1	**4.13**	**1.964**
Dealing with incompetent family members active in the business	12.6	9.2	13.8	21.8	17.2	16.1	9.2	**4.07**	**1.822**
Maintaining a role for the founder in the business after retirement		13.8	13.8	16.1	13.8	26.4	16.1	**4.74**	**1.681**
Balancing short-term and long-term business decisions		4.6	8.0	31.0	32.2	8.0	16.1	**4.79**	**1.322**
Changing from family management to Professional management			18.4	12.6	35.6	20.7	12.6	**4.97**	**1.262**
Maintaining loyalty of non-family members			4.6		17.2	52.9	25.3	**5.94**	**0.920**
Developing relationship between successor and non-family members			4.6	9.2	21.8	44.8	19.5	**5.66**	**1.044**
Changing from an autocratic to a democratic style of leadership		3.4		8.0	9.2	49.4	29.9	**5.91**	**1.127**
Defining the role of the board of directors			8.0	4.6	26.4	26.4	34.5	**5.75**	**1.213**

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Including non-family members in the Board of Directors (BoD)

While 93.4% of management personnel thought of this as an important governance issue (61.7% alone said it was critically important), 6.7% said it was less important. From the perspective of family-member-employees, 41.1% said it was little/less important or not important at all. Only 41.3% of this group attached some level of importance with this governance issue, with just 16.1% accepting that it was critically/most important. Table 2 shows that majority (58.2%) of family-member-employees did not attach enough importance to this issue of including non-family members in the BoD. As indicated in Table 3, 61.7% of non-family-member-employees attached some degrees of importance to it, however, with just 8% saying it didn't require much importance. It must be indicated that the proportion of non-family-member-employees who remained neutral on the importance or otherwise of this governance issue is quite substantial (30.2%).

Table 2: Non-Family-member employee responses to selected issues affecting family business governance

Issues	Valid %							Mean	SD
	1 Not at all Important	2 Less Important	3 Little Important	4 Neutral	5 Important	6 Very Important	7 Critically Important		
Preparing and training a successor	2.4	0.4	6.0	8.9	21.0	37.9	23.4	**5.53**	**1.340**
Balancing Family Concerns and business' interests	1.2	2.4	7.7	30.6	33.5	20.2	4.4	**4.71**	**1.151**
Including non-family members in the BoD	2.0	2.4	3.6	30.2	31.0	23.4	7.3	**4.85**	**1.223**
Selecting Family members for positions in the business	12.9	9.7	11.3	27.4	27.8	6.9	4.0	**3.84**	**1.601**
Maintaining ownership control in the family	5.6	6.5	10.9	21.4	24.2	17.7	13.7	**4.60**	**1.646**
Distributing ownership among family members	8.1	15.3	22.6	16.9	24.2	8.9	4.0	**3.77**	**1.575**
Dealing with incompetent family members active in the business	5.2	8.5	13.3	13.7	31.5	19.0	8.9	**4.50**	**1.605**
Maintaining a role for the founder in the business after retirement	4.8	10.5	15.3	23.8	28.2	15.7	1.6	**4.14**	**1.433**
Balancing short-term and long-term business decisions		2.4	17.7	32.7	25.4	18.5	3.2	**4.50**	**1.149**
Changing from family management to Professional management	0.4	1.2	9.3	17.7	33.9	29.8	7.7	**5.04**	**1.154**
Maintaining loyalty of non-family members	0.8	2.0	8.1	22.6	23.4	24.6	18.5	**5.14**	**1.355**
Developing relationship between successor and non-family members	0.8	2.0	6.5	16.5	27.4	34.7	12.1	**5.20**	**1.237**
Changing from an autocratic to a democratic style of leadership	1.2	3.2	5.6	15.3	21.0	29.0	24.6	**5.37**	**1.417**
Defining the role of the board of directors	2.4	5.2	7.3	15.3	20.2	35.1	14.5	**5.09**	**1.495**

Selecting family members for positions in the business

The inclusion of the importance of this governance issue stems from the fact that the researchers observed from the preliminary survey that certain positions in family businesses are almost always given to family members, whether they have the requisite qualification or not.

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Some positions, such as the Chief Executive Officer (CEO), Financial Director (Accountant, etc. depending on the preferred terminology within the business), Procurement and Logistics Director, are always manned by family members. Hence, the objective was to find out whether such a practice was deemed important and should be maintained.

While 20.0% remained neutral, more than half of management personnel (53.4%) thought it was not necessary to reserve certain positions solely for family members within the business. 26.7%, however, thought it was important to do so and, thusly, should be encouraged. On the part of family-member-employees, 74.6% agreed in principle with the practice and wanted it maintained. 11.4%, on the other hand, said it was not important to hold on to that practice and 13.8% were neutral. Employees who are not members of the owning family appeared to be divided in close proportions over this issue. While 38.7% thought it was important, 33.9% thought it was not important, with 27.4% remaining neutral. Tables 1, 2, and 3 details the above.

Maintaining ownership control in the family

Succession is one of the elements of a family business. Succession, in this vein, refers to the maintenance of ownership within the family, i.e. ensuring that future generations of the business continue to own the business. Generally, the aim is to ensure that family interests are maintained within the family business. We wish to quickly add that respondents were educated that maintaining ownership control in the business does not necessarily mean 100% ownership but, rather, the family keeps a sizeable proportion of the company's shares to be able to take and push through decisions (perhaps, in some cases, as the majority shareholder) that protect the family's interests. From the results of the survey, as shown in Tables 1, 2, and 3, management personnel and family-member-employees appeared to be divided in close percentages on this issue. 45.1% of management and 47.1% of family-member-employees said it was important to maintain ownership within the family with 6.7% of managers and 3.4% of family members indicating it was critically important. 41.7% of management and 48.2% of family-member-employees indicated that it wasn't important as long as the business could be run profitably to ensure growth. On the part of non-family-member-employees, 23.0% indicated that it was not important while more than half (55.6%) indicated that it was an important practice and should be maintained.

Distributing ownership among family members

Sometimes, when the entrepreneur dies, family businesses suffer because every member of the family (especially offspring of the entrepreneur) claims title to the business or different aspects

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of the business. This could result in long-standing litigations which lead to the eventual collapse of the business. So, while the entrepreneur is still living, is it important to distribute ownership of the business among children or family members, so that each is aware of their share of the business? In response to this, 80.0% of management personnel said such division was not important. In fact, 43.3% indicated that it was not at all important. Only 13.4% of managers associated some levels of importance to this governance issue, without anybody indicating that it was critically important. 47.1% of family-member-employees attached importance to it while 43.6% did not attach any importance to it. On the part of the non-family-member-employees, 46.0% did not see the need to attach any level of importance to this particular governance issue, although 37.1% believed otherwise. Tables 1, 2, and 3 throws more light on the above.

Dealing with incompetent family members active in the business

Generally, incompetent employees are corrected through training and instruction and/or disciplined variously (ranging from a mere verbal and sometimes informal warning to severer punishments, including dismissal from the work place) depending on the degree of incompetence and/or repetitive behaviour. Sometimes, however, when the culprits of incompetence are family relations of the entrepreneur, the situation is different. Entrepreneurs sometimes feel uneasy to discipline their own children, uncles, aunties, etc. at the workplace.

Likewise, managers, especially professional managers who are not members of the owning family do not find it easy and comfortable either disciplining children or relatives of the entrepreneur or recommending them for punishment. It was our aim to find out from the respondents whether it is important that incompetent family members active in the business are dealt with in the same manner as non-family members active in the business. In their responses (Tables 1, 2, 3), all management personnel said it was important to do so, with more than half (55.0%) indicating that it was critically important. 42.5% of family-member-employees as well as 59.4% of non-family-member-employees said it was important while 35.6% and 27.0% respectively said it was not important.

Maintaining a role for the founder in the business after retirement

Many entrepreneurs still cling on to their business roles even after retirement. Often, they're not able "to let go of their baby" so easily. As a result, they still get to approve contracts, purchases, among others before transactions could be made, even though they're retired and have handed over to a younger one. Is it important to maintain this family business culture? More than half (55%) of management personnel indicated that it was not important to maintain such role for the founder after they retire, with 6.7% saying it was not at all important. 33.4% were, however, of

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the view that it was important to maintain such a founder's role. In their responses, 56.3% of family-member-employees said it was important, with 16.1% indicating it as critically important. In the opinions of non-family-member-employees, 45.5% thought it was important while 30.6% thought it was not important. Overall, apart from the management personnel who mostly thought otherwise, more of the employees (both family-members and non-family-members) believed that it was important to keep the founder actively involved even after retirement.

Balancing short-term and long-term business decisions

Businesses, whether family businesses or traditional corporate businesses, are assumed to have a going concern, i.e. they are expected to exist and continue to operate into the future. Sometimes, managers are faced with a choice between the pursuit of short-term goals and long-term goals. For instance, would you want to maintain a lower level of productivity now and invest in your current staff and sponsor them through education and training to acquire the needed skills to maximize output (long-term) or would you rather use the money to invest in short-term securities for short-run profits? In order to survive the competition, it is important for family firms to strike a balance between short- and long-term business decisions, i.e. when to pursue which or both. In response to this issue, 45.0% said it was important and 13.4% said it was not important. As much as 41.7% of management staff preferred to be neutral on this issue. Majority of family-member-employees (56.3%) said it was important while 12.6% said it was not important, with 31.0% remaining neutral. From the perspective of non-family-member-employees, 47.1% said it was important but 20.1% thought otherwise, while 32.7% remained neutral. The percentages of respondents that remained neutral on this governance issue was quite worrying, especially on the side of the management personnel.

Changing from family management to professional management

Many small-scale and family businesses are managed by people from the owning family, especially at the initial stages of the businesses' development. As the business grows, it becomes necessary to employ the services of professional, more qualified managers to take over from the family members that manage them. This can be a daunting task, since family-member-managers may not be willing to let go of their positions nor even cooperate with the expert managerial personnel. We asked respondents to indicate how important it is to allow professionals to take over from family-members in the management of the family business when it reaches its mature state. 80.0% of management respondents indicated that it was important, with more than half (61.7%) saying it was critically important. Majority of family-member-employees and non-family-member-employees (68.9% and 71.4%) also indicated that it was

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important that professionals are allowed to take up the running of the business when it reaches a certain stage in its life cycle. Few employees disagreed with the importance of this issue.

Maintaining loyalty of non-family members

A loyal employee stays with the firm through good times and through bad times, when there are little or no profits and hence lower salaries/wages. Loyal employees dedicate themselves to work in the firm as if it is their own. The opposite is true for disloyalty. We aimed to find out whether it was important to consider non-family-member-employees as part of the owning family and treat them as such in order to win their loyalty to the family business. Almost all management staff and family-member-employees indicated that it was important (93.3% and 95.4% respectively). This view was supported by a greater proportion of non-family-member-employees (66.5%). Few respondents deprecated the importance of non-family-member-employees' loyalty.

Changing from an autocratic to a democratic style of leadership

Many entrepreneurs are visionaries who will do whatever it takes to push through their vision. As a consequence, they end up becoming autocratic leaders. This case applies to many family businesses as well. When asked to tell whether it was important to change from being autocratic leaders to democratic leaders that are easily approachable, entertains and accepts ideas from staff, etc. or remain autocratic in order to push through the business leader's agenda, 93.3% of management personnel said it was important to change, with as much as 75.0% responding that such change was critically important. 88.5% of family-member-employees as well as 74.6% of non-family-member employees all believed that it was important for autocratic leaders to change and become democratic. Few respondents, i.e. 10% or less among all categories of respondents thought that such change was not important.

Developing the role of the Board of Directors (BoD)

A BoD has the primary responsibility of hiring the CEO or General Manager and evaluating the strategic focus or overall direction of the business entity. The General Manager and his management team are not responsible for the overall corporate policy decisions, but rather coming out with tactics for the day-to-day operations of the business. In many family businesses where there is a BoD, it is not uncommon to see Directors meddling in the day-to-day operations of the business basically because there are no guidelines nor roles set for the BoD to follow. Consequently, family business managers become confused as to what constitutes the Board's role in the administration of the business compared to theirs. When

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asked to indicate the importance they attach to the definition of the role of the BoD, majority of management personnel (93.4%) attached great importance to it, compared to 6.7% that indicated that it was less important. 87.3% of family-member-employees and 69.8% of non-family-member-employees shared the same view as the 93.4% of management personnel. Overall, higher proportions of all the respondents indicated that it was important to develop a role for the BoD.

Further analysis

In order to discover or reduce the dimensionality of the data set without sacrificing accuracy or originality; identify new meaningful underlying or hidden patterns within the variables in the data, and classify them according to how much of the information stored in the data they account for; a factor analysis of the variables making up the 14 governance issues was run, employing principal component analysis. The factors were then rotated using Varimax Rotation with Kaiser Normalization. Tables 4 and 5 show that the analysis of family-member-employees' responses resulted in four factors that explained 67.05% of the variances.

Table 4: Principal Component Analysis of Family-member-employees' responses
Rotated Component Matrix

Statements	Component Factor Loadings			
	1 Tactical and Operational Decisions	2 Successor Planning and the BoD	3 Family Interests	4 Leadership Style and Ownership
Preparing and training a successor		.814		
Balancing Family Concerns and business' interests			.800	
Including non-family members in the BoD		.353		
Selecting Family members for positions in the business			.885	
Maintaining ownership control in the family				-.686
Distributing ownership among family members	.791			
Dealing with incompetent family members active in the business				.694
Maintaining a role for the founder in the business after retirement		.463		
Balancing short-term and long-term business decisions	.811			
Changing from family management to Professional management	.751			
Maintaining loyalty of non-family members	.594			
Developing relationship between successor and non-family members		.791		
Changing from an autocratic to a democratic style of leadership				-.500
Defining the role of the board of directors		.695		

The eigenvalues-greater-than-one principle was used to select the appropriate number of components that best represents the data. From the analysis, it can be observed that four components met this criterion after rotation. Also, retaining any component that accounts for at least 10% of the total variance in the data set, 4 components were retained. Thus components 1, 2, 3 and 4 accounted for about 23%, 19%, 13% and 12% respectively. Much cannot be deduced from the screen plot as it was smooth, hence showing no breaks. The retained components hence accounted for a total of about 68% of the variation in the data.

Table 5: Principal Component Analysis of Family-member-employees' responses
Total variance explained (Eigenvalues > 1)

Component	Rotation Sums of Squared Loadings		
	Eigenvalues	% of Variance	Cumulative %
1	3.219	22.996	22.996
2	2.619	18.705	41.702
3	1.874	13.388	55.089
4	1.675	11.962	67.051

The factor loadings are presented in Table 4. From the rotated factor pattern, an item was retained if its factor loading was 0.30 or greater for a particular component but less than 0.30 for the components was deleted. With this criteria, four items were observed to load on the first component; five on the second component; two on the third component and three on the fourth component. The items that influence component 1: Distributing ownership among family members, Balancing short-term and long-term business decisions, Changing from family management to professional management, and Maintaining loyalty of non-family members. Hence, component 1 was named 'Tactical and Operational Decisions.'

Also, component 2 was named 'Successor Planning and the BoD.' The items that influence this component are: Preparing and training a successor, Including non-family members in the BoD, Maintaining a role for the founder in the business after retirement, Developing relationship between the successor and non-family members, and Defining the role of the BoD. Component 3 has these items loading heavily on it: Balancing family concerns and business' interests, and Selecting family members for positions in the business. Hence, component 3 was named 'Family Interests.'

Likewise, component 4 has these factors loading heavily on it: Maintaining ownership control in the family, dealing with incompetent family members active in the business and Changing from an autocratic to a democratic style of leadership. It was named 'Leadership Style and Ownership'. Maintaining ownership control in the family and changing from an autocratic to a democratic style of leadership have negative loadings, indicating an inverse relationship.

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Table 6: Principal Component Analysis of management's responses
Rotated Component Matrix

Statements	Component Factor Loadings				
	1 Ownership & the BoD	2 Relationship with Non-family-employees	3 Strategic Direction & Successor Planning	4 Founder's role & Leadership style	5 Family Representation
Preparing and training a successor			.908		
Balancing Family Concerns and business' interests			.705		
Including non-family members in the BoD	.587				
Selecting Family members for positions in the business					.424
Maintaining ownership control in the family	-.924				
Distributing ownership among family members					.954
Dealing with incompetent family members active in the business	.905				
Maintaining a role for the founder in the business after retirement				-.868	
Balancing short-term and long-term business decisions			.734		
Changing from family management to Professional management		.753			
Maintaining loyalty of non-family members		.648			
Developing relationship between successor and non-family members		.948			
Changing from an autocratic to a democratic style of leadership				.450	
Defining the role of the board of directors	.483				

The factor analysis on the variables making up the 14 issues ran for the management personnel resulted in five components after the rotation (Tables 6 and 7). These components were given names that try to convey the underlying dimensions of the data, based on the variables that load on each factor. Component 1, named 'Ownership and the BoD,' accounted for about 25% of the variations in the data and had four factors loading on it. Maintaining ownership control in the family loaded heavily and indicated an inverse relationship with this component.

Table 7: Principal Component Analysis of management's responses
Total variance explained (Eigenvalues > 1)

Component	Rotation Sums of Squared Loadings		
	Eigenvalues	% of Variance	Cumulative %
1	3.560	25.425	25.425
2	2.767	19.765	45.190
3	2.639	18.849	64.039
4	1.864	13.313	77.352
5	1.445	10.322	87.674

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Component 2 was named as 'Relationship with Non-family-employees' based on the factors that load on it after the rotation. Three factors loaded on this component, accounting for about 20% of the variation. Three factors also influenced component 3, which was named 'Strategic Direction and Successor Planning.' Clearly, these factors loaded heavily on it, and explained about 19% of the variance.

Components 4 and 5 were named 'Founder's Role and Leadership Style,' and 'Family Representation' respectively. Each of these components had 2 loadings, with 'Maintaining a role for the founder in the business after retirement' showing a negative loading, and hence, an inverse relationship. The two components together accounted for about 23% of the variance.

The responses from non-family-member-employees gave four components after the rotation (Tables 8 and 9), which together explained about 54% of the variation in the responses. Based on the factor loadings, component 1, which had 5 factors was named 'Tactical and Operational Decisions.' Components 2, 3 and 4 were named 'Family Concerns and the BoD,' 'Founder and Succession,' and 'Family Interests' respectively.

Table 8: Principal Component Analysis of non-family-member-employees' responses
Rotated Component Matrix

	Component Factor Loadings			
	1 Tactical & Operational Decisions	2 Family Concerns & the BoD	3 Founder & Succession	4 Family Interests
Balancing Family Concerns and business' interests		.748		
Including non-family members in the BoD		.615		
Selecting Family members for positions in the business				.724
Maintaining ownership control in the family			.686	
Distributing ownership among family members				.756
Dealing with incompetent family members active in the business			.602	-.305
Maintaining a role for the founder in the business after retirement			.665	
Balancing short-term and long-term business decisions	.534			
Changing from family management to Professional management	.521			
Maintaining loyalty of non-family members	.840			
Developing relationship between successor and non-family members	.769			
Changing from an autocratic to a democratic style of leadership	.358			
Defining the role of the board of directors		.498		

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Each of these components has 3 factors loading on it, with 'Dealing with incompetent family members active in the business' loading positively on component 3 (Founder and Succession) and negatively on component 4 (Family Interests).

Table 9: Principal Component Analysis of non-family-member-employees' responses
Total variance explained (Eigenvalues > 1)

Component	Rotation Sums of Squared Loadings		
	Eigenvalues	% of Variance	Cumulative %
1	2.113	16.251	16.251
2	1.725	13.267	29.518
3	1.699	13.068	42.586
4	1.449	11.143	53.729

Tactical and Operational Decisions, Family Concerns and the BoD, Founder and Succession, and Family Interests explained about 16%, 13%, 13%, and 11% respectively.

CONCLUSIONS AND RECOMMENDATIONS

Preparing and training a successor/Developing a relationship between a successor and non-family members

Undoubtedly, the importance of these governance factor cannot be overemphasized. All the three categories of staff surveyed scored these factors as highly important compared to the other factors. Successor planning and training, and integration into the company are important in order to ensure that there is continuity in leadership and the interests of the owning family are upheld in future generations of the business. Unfortunately, from our survey, follow-up questions on this factor revealed that only one CEO had named a successor and was actually training that person to take up his (CEO) position in the near future. We recommend that CEOs of family businesses should take this issue serious and name successors, introduce them to the business, and give them the leadership training required to direct the family business in future.

Balancing family concerns and business' interests

As already indicated above, in a typical family firm, the owning family may be primarily concerned with the sustenance and well-being of its members (driven by a logic which appeals to sentiments, unity, tradition, harmony, etc.), while the firm may be concerned with generating products (goods and/or services) through results-oriented behaviours (driven by rationality in decision-making, adaptive behaviour toward the changing environment of business, etc.). Thus the aims of the family are usually different from the aims of the business entity. Hence, to survive and ensure profitability, it is important for family firms to match family concerns against

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business interests and seek a balance between the two. From the analysis, it came to light that managements attached the greatest importance to this issue among the three categories of respondents; and it is in the right direction.

Including non-family members in the Board of Directors (BoD)

The Board of Directors (BoD) is the group of people that give strategic direction to a business organization. Their role in giving direction and focus to the organization, whether a family business or a traditional corporate firm, and ensuring that managerial opportunism is reduced by putting in place proper governance structures that ensure control and accountability, the realization of corporate goals (as well as family goals in a family business) among others, by managers must be emphasized. We propose that in order to ensure a fit between corporate goals and family interests, it would help if other professionals, experts, etc. who are not members of the owning family are made members of the BoD.

Selecting family members for positions in the business

Extant literature proposes that one of the key components for governance of family businesses is trust (in the usage relational governance models). It appears that owners of family businesses and family members alike prefer entrusting certain positions to their own family members than outsiders. It must be noted, however, that some family members could be really difficult to deal with, especially when they are of the belief that the business is theirs and nobody can punish them in any way for misconduct, embezzlement, or other vices. While agreeing that trust is necessary, we wish to caution owning families of family businesses that it would not always follow that family members would be better accountable when asked to man certain specific positions in the business. Care should be taken 'not to fit square pegs into round holes.' Positions in the business should be filled on the basis of merit but not on the basis of one's membership within the owning family.

Maintaining ownership control in the family

Ensuring that ownership remains within the family is not a bad idea. We encourage families that are able to ensure efficient utilization of resources and the realization of corporate objectives to take steps to maintain ownership control in the family as long as they have the resources to expand and/grow the business. By so doing, they can ensure that the interests of the family are retained and protected. However, if maintaining ownership limits the family business' ability to raise capital to expand, control key members of the organization; enhances wastage of resources, among others, then we would encourage the discontinuance of ownership of the

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business in the family. In our view, it is better to share ownership or relinquish a sizeable proportion of family shares to others who could bring in expertise and proper control so that the business would continue to operate profitably.

Distributing ownership among family members

Many of the respondents that indicated that distributing ownership among family members were not important explained in follow-up interviews that such would enhance disunity among members of the family and rather lead to the loss of ownership control within the family. In the words of one manager, "individual family members with less interest in the family business could decide to sell their share of the business to outsiders, and if such family members are more or hold significant proportions of the business, family ownership control/succession would be compromised." Others who held the view that it was important explained that distributing ownership will prevent in-fighting among family members, and with everyone striving to protect their inheritance, hard work and dedication to best business practices will be encouraged, leading to higher levels of profitability for the business as a whole. In their opinion, distributing ownership among family members would rather encourage unity among children of the entrepreneur because they would all recognize that, like the proverbial broom, they have to work together to remain profitable and ensure continuity of the family business. We wish to add our voice to the call not to partition a family business entity into parts/departments with the aim of sharing it to family members. We firmly believe that such a practice could lead to disunity, non-conformity, and such habits among descendants of the entrepreneur and lead to the eventual collapse of family businesses.

Dealing with incompetent family members active in the business

The results and discussion above indicate that apart from the family-member-employees, which a sizeable percentage indicated that incompetent family member employees should be treated differently from the rest of the workforce, majority of employees (both management and non-family-member-employees) believe, and rightly so, that incompetent family members active in the business should not be given any different treatment from the rest. We wish to state that incompetence should not be entertained in any form from anyone (be they members of the owning family or not) if owners and managers desire the business entity to be successful. While acknowledging that it could be a difficult task disciplining one of your own that is not performing up to expectation, as owners, it would serve as a source of motivation to the others if they are disciplined. A typical worker would likely infer that if 'the rod was not spared' on a family member, then it would definitely not be spared on them also. This single thought has the

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advantage of encouraging seriousness among workers about their job roles, work times, etc.; reducing worker agitations and confrontations, among others.

Maintaining a role for the founder in the business after retirement

Available literature proposes that founders of family businesses take a deep and personal interest in the business even after retirement. This is usually because such people are accustomed to relying on their own judgment and having the final say in all major decisions (Tsang, 2002). While we acknowledge the above fact and add that their experience and knowledge in the business could impact positively on the business, we wish to recommend that retired founders should allow their successors room to operate freely. New and competent business heads may bring new ideas that may not be popular with the founder but which, if pursued, could propel the business to higher heights than could be anticipated. We believe that the founder could be contacted occasionally for advice, but it should not necessarily be his approval that should be sought before entering into contracts, making purchases, etc. Taking active part in the business should cease once the founder goes on retirement.

Balancing short-term and long-term business decisions

From the results of the survey, we opined that some of the respondents, including some management staff, found it difficult appreciating the difference between long-term and short-term business decisions. We wish to propose that a balance between short-term goals and long-term goals is a necessary ingredient for effective governance of family businesses. Therefore, business leaders must acquaint themselves well on the differences between the two and when to pursue either or both of them.

Changing from family management to professional management

We agree with the majority of the respondents on this governance issue. Thus, when the business starts growing and faces competition, it is important that family members who are not experts give way to professional managers. It is expected that with their levels of professional competence, they will improve the family business' competitiveness and help it survive the turbulent business environment.

Maintaining loyalty of non-family members

As already indicated above, loyal employees stay with the firm through 'thick and thin' as well as dedicate themselves to work in the firm as if it is their own. Where not treated well, and made to feel as 'outsiders' within the family business, non-family-member-employees do not give up their

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best and do not sacrifice anything of theirs to improve business performance. They follow their time lines, do their work as expected of them in order to avoid punishment, etc. but would not 'go the extra mile' for the business. One employee within this category of respondents in an interview said "the business is not for my father – why should I kill myself for it?" Further questioning revealed that the entrepreneur treated family-member-employees perhaps in a better way than the rest of the staff, and paid higher wages and salaries to family-members with same of similar qualifications and work experiences than non-family-member-employees. Where this is the case, non-family-member-employees murmur and would not be loyal to the family business. In the long-run, the business would suffer because staff turnover rate could be high or people could watch things go bad for the business without any form of regret. We advise family-business entrepreneurs and managers to treat all staff equally, take steps to make non-family-member-employees feel comfortable and part of the business, and reap the benefits of employee loyalty.

Changing from an autocratic to a democratic style of leadership

Obviously, from the discussion above, most employees do not like to be dictated to and forced to comply, as if their views do not matter. Everyone's views on an issue is important, thus the adage 'Two heads are better than one.' While we acknowledge that the entrepreneur is the vision bearer and wants to realize his dreams for setting up the business, wisdom and business ideas are not the preserve of one person. It is good to listen. Listening to others may help one to realize and take steps to mitigate potential problems, such as worker agitations; open up opportunities to be tapped, help to realize and take steps to deal with a threat in the turbulent business environment, help communicate a message of concern for staff's welfare, among others. We wish to state that being democratic does not equate to 'not being firm.' A leader could be democratic but firm on the right business direction. Hence, we recommend that autocratic leaders should change and become democratic, and they would marvel at the levels that being democratic can take their businesses.

Developing the role of the Board of Directors

Conflicts between the roles of the BoD and management can affect business operations negatively. It is an undeniable fact that where roles overlap or conflict, people tend to leave the job undone. Therefore, in order to enhance performance and improve profitability, it is important to draw clear lines of distinction between the roles of the BoD and management as well as their operational limits. Once this is done, it is expected that parties will coexist and work in harmony to improve upon company performance.

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LIMITATIONS AND FURTHER RESEARCH

All companies surveyed were 100% owned family businesses. Results are not generalizable to the entire family business sector, since in practice there are many family businesses with lesser family ownership stakes. We recommend further research into this area in family businesses with less ownership stakes.

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